Securing progress in an uncertain world

Budget 2001

Overview

December 10, 2001

Canada

A New Approach to Air Security

Budget 2001 is allocating $2.2 billion over the next five years to make air travel more secure in accordance with rigorous new national Transport Canada standards.

To ensure that these standards are met, the Government will create a new air security authority. New air security measures will include:

- armed undercover police officers on Canadian aircraft;
- better-trained personnel to screen passengers and carry-on baggage;
- enhanced policing in airports;
- replacement of aircraft cockpit doors to make them more secure; and
- new state-of-the-art explosives detection systems at Canada's airports.

These measures will be funded by a new Air Travellers Security Charge to be paid by air travellers starting April 1, 2002. The total cost of the charge will be $12 each way for travel in Canada.

A Secure, Open and Efficient Border

The Government's security agenda involves much more than physical security for Canadians. A key element is rebuilding confidence through greater economic security.

Every day, close to $2 billion worth of goods and services crosses the Canada-U.S. border. Given the magnitude of this two-way trade, maintaining an open border is critical to both countries.

Budget 2001 invests more than $1.2 billion in measures designed to make the border more secure, open and efficient. These include:

- new technology to help Customs officers facilitate border crossings for goods and travellers;
- new Canadian multi-agency Integrated Border Enforcement Teams to co-ordinate intelligence and enforcement efforts along the Canada-U.S. border; and
- a new $600-million program to improve infrastructure that supports major border crossings, such as highways and commercial vehicle processing centres. Under this program, Canada will seek partnerships with the provinces, municipalities and the private sector.

Strategic Investments

The Government's overarching goals are to build a strong economy and secure society, and to improve the quality of life for Canadians. The strategic investments in this budget help achieve those objectives by dealing with the needs of today. At the same time, they serve as a bridge to a better tomorrow.

These investments are based on two criteria:

- they must be consistent with advancing the Government's long-term plan to build a strong economy and secure society, and to improve the quality of life for Canadians; and
- they must fit within the prudent fiscal framework and, where possible, provide stimulus during the period of economic weakness and position Canada to take advantage of the economic recovery.

By investing in strategic infrastructure, skills and learning, research, health, Aboriginal children, the environment and international assistance, the 2001 budget advances the Government's long-term vision while providing important support now for the economy.

Health Initiatives

- Budget 2001 confirms that the $23.4 billion in funding to support health care and early childhood development agreements reached by first ministers in September 2000 is fully protected.
- It provides $95 million to the Canadian Institute for Health Information, and increases annual funding by $75 million for the Canadian Institutes of Health Research.

Skills, Learning and Research

Budget 2001 invests more than $1.1 billion over three years to support skills, learning and research.

It supports skills and learning by:

- improving support for people with disabilities who pursue higher education;
- helping apprentices and young entrepreneurs; and
- further encouraging Canadians receiving training assistance from government to pursue educational opportunities.

It supports Canadian research by:

- helping offset indirect research costs at universities and research hospitals;

- supporting leading-edge technologies and expanding regional innovation initiatives across the country through increased funding to the National Research Council of Canada;
- providing additional funding to the Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council; and
- extending funding for Internet initiatives in schools and community access centres.

Strategic Infrastructure and the Environment

Infrastructure will both stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term. The budget announces targeted investments of nearly $3 billion that allow the Government to:

- create the Strategic Infrastructure Foundation, with a minimum federal commitment of $2 billion;
- confirm $680 million in funding for affordable rental housing;
- double funding to the Green Municipal Enabling Fund and Green Municipal Investment Fund; and
- enhance incentives for renewable energy and energy efficiency projects.

This complements the $2-billion program now coming on stream that was announced Budget 2000 and the $600 million for highways, also from Budget 2000, as well as the border infrastructure program announced in this budget.

Aboriginal Children

To improve the well-being of Aboriginal children, Budget 2001 will provide $185 million over the next two years to:

- enhance programs such as child care and Head Start, which support early childhood development;
- intensify efforts to reduce the incidence of fetal alcohol syndrome; and
- provide increased funding to support children on reserves who have special needs at school.

Furthering International Assistance

Because Canada recognizes the importance of helping those most in need beyond its borders, the budget increases international assistance by $1 billion over three years. Among other things, Budget 2001 will:

- commit $500 million to a fund promoting sustainable development in Africa;
- provide humanitarian emergency assistance in Afghanistan; and
- provide other international assistance.

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Commitment to Balanced Budgets

The Government's strategy of sound fiscal management will help Canadians deal with the current economic uncertainty.

- Despite the impact of the economic slowdown, the Government is forecasting a balanced budget for this year and balanced budgets or better in 2002-03 and 2003-04.
- For the first time in 17 years, Canada's net debt-to-GDP (gross domestic product) ratio will fall to below 50 per cent next year; and
- 75 per cent of the increase in program spending in 2001-02 is for health care, security, employment insurance and elderly benefits.

Enhancing Security for Canadians

The September 11 terrorist attacks on the United States have forced Canadians to confront a new kind of threat at home.

In response, Budget 2001 introduces a comprehensive plan to enhance personal and economic security.

In total, the budget provides $7.7 billion over the next five years to enhance security for Canadians. This includes:

- $6.5 billion for security, including air security and Canada's military; plus
- more than $1.2 billion for initiatives designed to make Canada's border more secure, open and efficient.

Budget 2001 – Security Funding (over five years)

	($ billions)
Intelligence and Policing	1.6
Screening Entrants to Canada	1.0
Emergency Preparedness and Support for the Military	1.6
A New Approach to Air Security	2.2
Subtotal	6.5
A Secure, Open and Efficient Border	1.2
Total	**7.7**

Note: Totals may not add up due to rounding

Security Measures

Protecting citizens, their property and their way of life from external threats is a fundamental role of government. This budget's approach to security is based on:

- increased intelligence and policing;
- enhanced screening of arrivals to Canada; and
- better emergency preparedness and support for the military.

Security funding in Budget 2001 includes $1.2 billion over the next five years for the Department of National Defence and its agencies.

"This budget...is about resolving to work together as never before, renewed in purpose, confident of our course and guided through changing times by unchanging values."

Finance Minister Paul Martin
2001 budget speech

Introduction

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society.

But it also responds to immediate economic and security concerns.

It does this in four ways:

- First, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year.
- Second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient.
- Third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years.
- Fourth, it fully protects the $100-billion tax cut and the $23.4 billion in increased support for health care and early childhood development.

Economic and Fiscal Prospects

Canada has undergone a remarkable economic and fiscal turnaround in the past eight years. But the unforeseen circumstances of both the global economic slowdown and the terrorist attacks of September 11 have created exceptional fiscal pressures.

Based on the average of private sector economic forecasts:

- Canada's economy is predicted to grow by 1.3 per cent in 2001 and 1.1 per cent in 2002;
- an economic recovery is expected in the second half of 2002, reflecting the impact of lower interest rates and taxes, as well as the anticipated recovery in the U.S.; and
- economic growth is expected to rebound to 3.9 per cent in 2003.

Economic Stimulus

The targeted spending in this budget or coming on stream this year, coupled with the tax cuts now flowing through the economy, are providing $26 billion in economic stimulus – or 2.4 per cent of GDP – during a period of economic weakness. This is in addition to the significant monetary stimulus resulting from the 3.5-percentage-point decline in short-term interest rates this year to their lowest level in 40 years.

Budget 2001

Enhancing Security for Canadians

December 10, 2001

Canada

"Canadians have been confronted with a new kind of threat at home – and to protect ourselves, we must respond in new kinds of ways."

Finance Minister Paul Martin
2001 budget speech

Introduction

The September 11, 2001, terrorist attacks on the United States have forced Canadians to confront a new kind of threat at home.

The federal government acted quickly. It increased support for security and intelligence measures, introduced anti-terrorism legislation and took steps to cut off terrorist financing.

Canada also joined with its allies in the war against terrorism abroad.

Budget 2001 takes the Government's response even further. It introduces a comprehensive plan to enhance personal and economic security by:

- keeping Canadians safe;
- keeping terrorists out of Canada; and
- keeping Canada's borders secure, open and efficient.

In total, the budget provides $7.7 billion over the next five years to enhance security for Canadians. This includes:

- $6.5 billion for security, including air security and Canada's military; plus
- more than $1.2 billion for initiatives designed to make Canada's border more secure, open and efficient.

Security Measures

Protecting citizens, their property and their way of life from external threats is a fundamental role of government. This budget's approach to security is based on:

a) increased intelligence and policing;

b) enhanced screening of arrivals to Canada; and

c) better emergency preparedness and support for the military.

Security funding in Budget 2001 includes $1.2 billion over the next five years for the Department of National Defence and its agencies.

a) Intelligence and Policing

Better intelligence and enhanced policing will help to prevent terrorism, deal with terrorists and – where mandated – have them removed from the country.

This budget includes $1.6 billion over the next five years to:

- equip and deploy more intelligence officers and front-line investigative personnel. This funding will go to federal departments and agencies, including the Royal Canadian Mounted Police and the Canadian Security Intelligence Service;
- improve co-ordination among law enforcement, intelligence and national security agencies;
- boost marine security through greater funding for coastal surveillance; and
- strengthen the role of the Financial Transactions and Reports Analysis Centre of Canada in cutting off terrorist financing.

b) Screening of Entrants to Canada

Canada welcomes visitors, as well as immigrants and refugees who want to live peacefully in this country. That will not change.

But the Government recognizes that authorities must have a better ability to identify and exclude those who pose a risk to Canada and the rest of the world.

Budget 2001 invests $1 billion over the next five years to improve the screening of immigrants, refugee claimants and visitors. These initiatives will include:

- better and more accurate screening;
- more resources for detentions and removals;
- quicker determination of refugee claims; and
- new fraud-resistant Permanent Resident Cards.

Enhanced security features will also be introduced for the Canadian passport.

c) Emergency Preparedness and Support for the Military

Security measures in Budget 2001 aim to minimize the potential for terrorism. But the Government must ensure that, if a terrorist act does occur, it can respond quickly and effectively.

Budget 2001 puts more than $1.6 billion towards emergency preparedness and the military. These measures include:

- doubling the capacity of Joint Task Force Two – the Canadian Forces' elite anti-terrorist unit;
- military funding, including support for Canada's participation in the international war on terrorism;

- enhancing laboratory networks and buying specialized equipment for responding to chemical, biological and nuclear threats; and
- improving Canada's ability to protect critical infrastructure – such as water and energy utilities, and transportation and communications systems.

In addition to addressing the threat of terrorism, these added resources will better position Canada to respond to other types of emergencies, such as floods and other natural disasters.

A New Approach to Air Security

Canada has one of the safest aviation systems in the world. Still, the events of September 11 have had a significant impact on the security needs of air travellers.

Budget 2001 is allocating $2.2 billion over the next five years to make air travel more secure in accordance with rigorous new national Transport Canada standards.

To ensure that these standards are met, the Government will create a new air security authority. New air security measures will include:

- armed undercover police officers on Canadian aircraft;
- better-trained personnel to screen passengers and carry-on baggage;
- new state-of-the-art explosives detection systems at Canada's airports;
- enhanced policing in airports;
- replacement of aircraft cockpit doors to make them more secure; and
- enhanced security zones at aircraft handling facilities and on tarmacs.

These measures will be funded by a new Air Travellers Security Charge to be paid by air travellers starting April 1, 2002, for travel in Canada. The total cost of the charge will be $12 each way.

A Secure, Open and Efficient Border

The Government's security agenda involves much more than physical security for Canadians. A key element is rebuilding confidence through greater economic security.

Every day, close to $2 billion worth of goods and services crosses the Canada-U.S. border. Given the magnitude of this two-way trade, maintaining an open border is critical to both countries.

Budget 2001 invests more than $1.2 billion in measures designed to make the border more secure, open and efficient.

Border Security and Facilitation

Of the more than $1.2 billion dedicated to border-related measures, $646 million will be targeted to measures aimed at enhancing border security while facilitating the flow of goods between Canada and the U.S. These measures include:

- new technology to help Customs officers facilitate border crossings for goods and travellers;
- new Canadian multi-agency Integrated Border Enforcement Teams to co-ordinate intelligence and enforcement efforts along the Canada-U.S. border;
- advanced information-sharing technology to help Customs officers screen travellers arriving at airports and other border-entry points;

- better equipment for detecting explosives, firearms and other dangers without delaying the flow of legitimate commerce or tourism; and
- new secure Internet-based technology to ease Customs compliance for small business.

Border Infrastructure

To help make the border more efficient, Budget 2001 also creates:

- a new $600-million program to improve infrastructure that supports major border crossings, such as highways and commercial vehicle processing centres.

Under this program, the Government will seek partnerships with the provinces, municipalities and the private sector.

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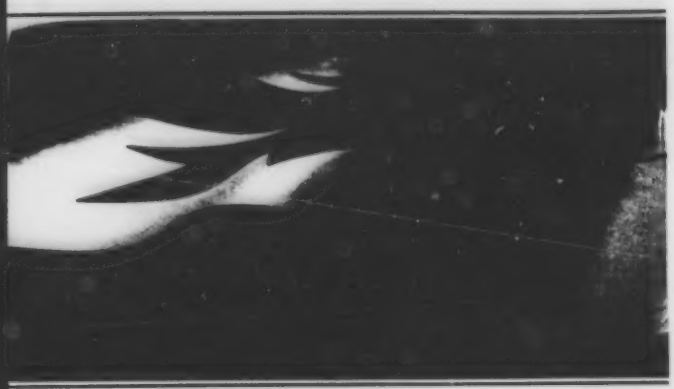
Budget 2001 – Security Funding
(over five years)

	($ millions)
Intelligence and Policing	
More intelligence and police officers	1,177
Co-ordination and information sharing	76
Marine security	60
Cutting off terrorist financing	63
Other initiatives	163
Contingency	95
Screening Entrants to Canada	
Better and more accurate screening	395
Detentions, removals and refugee determination	210
Fraud-resistant documents	287
Contingency	110
Emergency Preparedness and Support for the Military	
Supporting Canada's military	510
Expanded anti-terrorist capacity	119
Chemical, biological, radiological and nuclear threats	513
Emergency preparedness	396
Contingency	100
A New Approach to Air Security	**2,189**
Border Initiatives	
Expediting pre-approved travellers	58
Risk-assessment and detection	67
Detecting dangerous shipments	107
Integrated Border Enforcement Teams	135
Better service to small business	14
Other initiatives	226
Contingency	40
[illegible]	600
Total	**7,708**

Note: Total does not add up due to rounding.

Securing progress in an uncertain world

Budget 2001



Canada's Economic and Fiscal Prospects

December 10, 2001

Canada

"Managing an economy through tough times means striking the right balance. This budget does that.... It builds on the strong fundamentals Canadians have worked so hard to achieve."

Finance Minister Paul Martin
2001 budget speech

Introduction

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

But Canada's fiscal and economic progress is helping us weather this storm and positioning us to take advantage of the recovery expected by private sector economists in the second half of 2002.

Budget 2001 gives Canadians a full accounting of the nation's finances. Among other things, it confirms:

- the Government will balance the budget this year and in each of the next two years; and
- the Government's commitment to protect the $100-billion tax cut plan and the $23.4-billion agreements for health care and early childhood development.

Economic and Fiscal Prospects

Canada has undergone a remarkable economic and fiscal turnaround in the past eight years. But the current period of global economic weakness is impacting on the Canadian economy and on the Government's finances.

"Canadians remember the hard choices of the 1990s as we worked to pull ourselves out of deficit. We will not play fast and loose with the finances of the nation."

Finance Minister Paul Martin
2001 budget speech

Based on the average of private sector economic forecasts:

- Canada's economy is predicted to grow by 1.3 per cent in 2001 and 1.1 per cent in 2002;
- an economic recovery is expected in the second half of 2002, reflecting the impact of lower interest rates and taxes, as well as the anticipated recovery in the U.S.; and
- economic growth is expected to rebound to 3.9 per cent in 2003.

Commitment to Balanced Budgets

The Government's strategy of sound fiscal management will help Canadians deal with the current economic uncertainty.

- despite the impact of the economic slowdown, the Government is forecasting a balanced budget for this year and balanced budgets or better in 2002-03 and 2003-04;
- for the first time in 17 years, Canada's net debt-to-GDP (gross domestic product) ratio will fall to below 50 per cent next year; and
- 75 per cent of the increase in program spending in 2001-02 is for health care, security, employment insurance and elderly benefits.

Canada's Contingency Reserve

Previously, the Government had set aside a Contingency Reserve of $3 billion per year, with an additional amount for economic prudence, to cover risks that could arise from unforeseen circumstances.

The global economic slowdown and the September 11 terrorist attacks have created exceptional fiscal pressure. As a result, the Government will not set aside any economic prudence and will use part of the Contingency Reserve this year and the next two years.

- For 2001-02, the Contingency Reserve is set at $1.5 billion, rising to $2.0 billion in 2002-03 and $2.5 billion in 2003-04.

In addition, the Government believes that paying down debt is not appropriate in the current economic circumstances. Therefore, any surplus at the end of the 2001-02 fiscal year will be used for the Government's commitment to its Strategic Infrastructure Foundation and the Africa Fund.

Strategic Investments and Economic Stimulus

The Government remains committed to its overarching goals of building a strong economy and a secure society.

Not only does this budget confirm that the funding for the health accord and the tax reduction plan are protected, but it commits significant new resources to strategic investments in our future. These include:

- $7.7 billion over the next five years to enhance personal and economic security for Canadians, including initiatives to improve the efficiency and security of our borders;
- $2 billion for strategic infrastructure projects to stimulate job creation and improve long-term economic productivity; and
- $1.1 billion over three years to support skills, learning and research.

The targeted spending in this budget or coming on stream this year, coupled with the tax cuts now flowing through the economy, are providing $26 billion in economic stimulus – or 2.4 per cent of GDP – during a period of economic weakness. This is in addition to the significant monetary stimulus resulting from the 3.5-percentage-point decline in short-term interest rates this year to their lowest level in 40 years.

Fiscal Progress

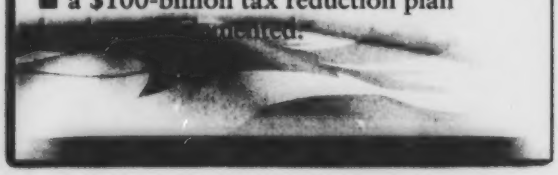
As a result of our fiscal progress, Canadians face the current economic slowdown in much better shape than they did during the previous downturn in the early 1990s. At that time:

- interest rates were high and rising;
- the deficit was approaching $40 billion a year; and
- the national debt was soaring.

Thanks to the hard choices made by Canadians and their commitment to restoring the nation's finances, the situation today is far different.

The results speak for themselves:

- 28 years of deficits were ended;
- four consecutive budget surpluses have been recorded, including a record $17.1 billion in 2000-01;
- almost $36 billion of Canada's national debt has been paid down;
- $2.5 billion in annual interest payments have been freed up to be used for other initiatives;
- interest rates are at their lowest level in 40 years; and
- a $100-billion tax reduction plan [illegible]



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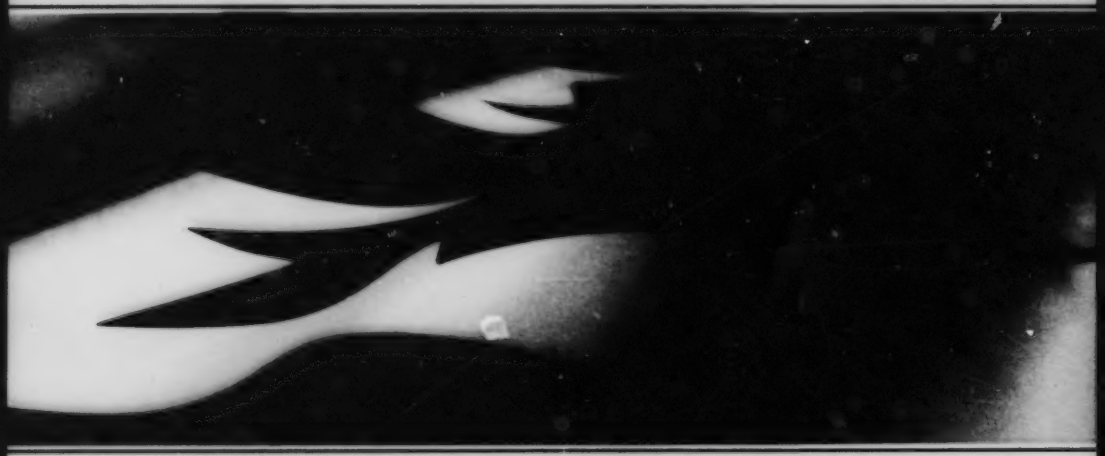
The Budget Speech 2001



The Honourable Paul Martin, P.C., M.P.
Minister of Finance

December 10, 2001

Canada

Securing progress in an uncertain world

The Budget Speech 2001

Department of Finance Canada
Ministère des Finances Canada

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Introduction

Before I begin, I would like to express the Government's appreciation to the people of Canada who have given of their ideas and insights. I also want to thank the many committees and task forces of our caucus who, throughout the year, have worked so closely with us in the lead-up to this budget. And, finally, I would like to thank the Standing Committee on Finance, whose hearings have framed the national debate and whose report has provided us with valuable input again.

Mr. Speaker, we meet today at a time of global turbulence. A time when character is tested, perseverance is tried and values reaffirmed. Just three months ago tomorrow, terror touched our continent and changed our world. Today, we deal with its economic consequences, but that day was first and foremost a human tragedy, measured in lives taken, families destroyed and fears awakened.

In the aftermath of the terrorist attacks, Canadians are understandably concerned about their own security and that of the nation. We have struggled to explain to our children what we ourselves must seek to understand. At the same time, we have felt the comfort of reaching out to others. We have experienced the reassurance of family and faith. We have recognized our vulnerabilities but, as well, we have rediscovered our strengths and, as a nation, we are more united today than ever.

Mr. Speaker, prior to September 11th, the global economy had begun to slow down. However, the terrible events of that day made matters much worse and introduced a new level of uncertainty into the economic outlook.

The focus of this budget, therefore, is to deal with that uncertainty and to manage through this period of global weakness. Its time frame is the year ahead.

Specifically, this budget does four things:

First, it provides the necessary funding for the security measures to deal with the threats we face.

Second, it recognizes the vital importance of an open Canada-U.S. border to our economic security.

Third, it supports Canadians through difficult times while continuing our long-term plan to build for the future.

And fourth, it provides Canadians with a full and open accounting of the nation's finances.

Before addressing those matters in detail, let me say that although we are going through a difficult period, thanks to the hard choices Canadians have made in recent years, our economy is inherently strong.

It is because of those efforts that today's budget is able to confirm that we will provide the full $23 billion of increased health care and early childhood funding announced in September of last year.

We will implement the $100 billion in tax cuts announced last year.

We will fully finance the national security package.

We will pursue our long-term plan to invest in the future.

And, finally, based on the average of private sector forecasts, we will do all of this without going back into deficit.

Mr. Speaker, this is the payoff of our prudent approach, but it is equally the result of the resiliency of Canadians. After all, an economy is not about statistics or spreadsheets. It is a measure of individual enterprise and effort. It is about what people do and how they live.

At times, this means demonstrating courage in the face of adversity, composure in the face of challenge. But Canadians have always shown that strength. It is for this reason that we face the future with confidence.

The Global Situation

Mr. Speaker, the global economy began showing signs of weakness early this year. As a result, the International Monetary Fund reduced its forecast for global growth significantly, reflecting the situation in the United States, persistent difficulties in Japan, poorer prospects in Europe and a marked decline in several emerging countries. Indeed, for the first time in 25 years, we were in the midst of a slowdown that was happening concurrently in every major market of the world.

As we now know, the events of September 11th significantly worsened the state of the U.S. economy. Commerce was hurt by the sheer physical disruptions of stock markets that closed, air traffic that stopped, shipments that were delayed and investments that were postponed.

As a result, economists have now substantially reduced their outlook for U.S. growth this year from the 3.5 per cent predicted a year ago to 1.1 per cent today – reflecting the current recession in that country.

At the same time, they believe this weakness should be relatively short-lived. If they are right, we should see a recovery in the U.S. beginning by the middle of next year. If, on the other hand, U.S. consumer and business confidence erode further, that would have economic and fiscal consequences for us all.

The Canadian Economy

In turning to the state of the Canadian economy, it is important to remember how connected we are to the world. More than 40 per cent of our economic activity is generated by exports and these have been hit hard by the global slowdown, particularly by the downturn in the United States. This was reflected in our weaker performance in the first half of this year and, following the terrorist attacks, Canada was severely affected by delays and disruptions at the U.S. border, reminding us of the vital importance of keeping an open flow of people and products between our two countries.

Tourism, airlines and aerospace have been particularly affected. This has been compounded by the difficulties faced by Canada's softwood lumber industry and many parts of our agricultural industry.

As a result of all of this, our economy contracted in the third quarter. And, in part reflecting recent declines in full-time employment, most analysts expect weakness to continue into the fourth.

The Economic Outlook

Clearly, these developments will have a significant impact on the kind of economic growth we can expect next year.

To assess this, as in the past, we have consulted some 19 private sector forecasters to obtain their best estimates of the economic outlook. Based on that survey, we then consulted with the chief economists of Canada's major chartered banks and three leading forecasting firms to discuss the most recent numbers and their implications for this budget's economic and fiscal projections.

On average, forecasters anticipate growth of 1.3 per cent this year – down dramatically from 4.4 per cent last year. They predict a 1.1 per cent growth for 2002, but with a stronger second half as exports recover, confidence is rebuilt and consumers and businesses respond to the substantial declines in both interest rates and taxes.

That being said, we can take nothing for granted given the extent of global uncertainty. Therefore, the Government, while very confident for the medium and longer term, will remain cautious in its planning.

Managing in Uncertain Times

Mr. Speaker, a key part of reducing uncertainty is restoring a sense of personal security. Today, we are introducing a comprehensive set of measures to that end. Our purpose is clear: to keep Canadians safe, to keep terrorists out and to keep our borders open.

Enhancing Security for Canadians

There is no doubt that September 11th forced us to deal with a struggle we did not start, in a world we did not create. Canadians have been confronted with a new kind of threat at home – and to protect ourselves, we must respond in new kinds of ways.

This is not a classic conflict between states. Our adversaries seek not to win territory but to disrupt our economy; not to deploy troops but to divide our society; not to control our resources but to undermine our freedoms.

As a result, this campaign is not being waged in the traditional fashion. It is being fought not just with bombs but with intelligence operations, police actions and bank controls. The struggle may be long, but it will be won. Quite simply, we need to know our enemy better, anticipate threats sooner and take action faster to stop them. Intelligence and policing are vital. We must know who poses a threat, where they are and what they aim to do.

To ensure that we have the best possible information, this budget commits new resources to the Canadian Security Intelligence Service – CSIS. Indeed, we will provide the agency with the largest increase in its history. Furthermore, we will substantially increase the resources available to the RCMP for antiterrorist activities.

Next, we will enhance controls at all points of entry into Canada. We will beef up security at our ports and seaways, increase the number of patrols off of our coasts and provide better tools and technology to intercept potential terrorists before they reach our shores.

These efforts will begin well beyond our borders. We will place more immigration control officers abroad to gather intelligence and prevent criminals and terrorists from obtaining travel documents or using fraudulent documents to enter Canada.

We will tighten controls in our refugee system so that only those truly in need can enjoy the privilege of our welcome. To that end, we will increase resources so that enhanced security checks can be done on claimants as soon as they arrive.

And, finally, we will provide more resources to the Immigration and Refugee Board to shorten the waiting time for hearings, reduce the backlog that already exists, and send back those who do not deserve to stay.

That being said, however, Canada has always welcomed those seeking a new life in a new land and this will not change. The measures I have just announced will not affect legitimate refugees or immigrants.

What will change – what must change – is our ability to identify and exclude those who come to Canada fraudulently for whatever reason.

Mr. Speaker, the recent events in the United States have awakened us all to the need to protect ourselves against unconventional weapons. Whether the threat is chemical, biological or nuclear, we must increase our ability to respond.

In the event of an unconventional attack, the first on the scene will inevitably be local emergency personnel who need to be skilled in recognizing and responding to different hazards. We will help to provide that training.

Furthermore, these local authorities must be supported by specialists, capable of responding quickly and effectively. We will, therefore, enhance the highly specialized response capacity of both the Canadian Forces and the RCMP.

And finally, we will provide new equipment and improve the capacity of our laboratories to detect and identify biochemical hazards.

Mr. Speaker, terrorists cannot carry out their activities without access to substantial financial resources. Without money, they cannot buy weapons, train personnel or establish cells in foreign lands. We have frozen the assets of suspected terrorists and improved our capacity to track suspect transactions. This budget builds on those efforts, with additional resources to help starve terrorists of the funding they need.

Important as these steps are, however, we recognize that the actions of individual countries are not enough – that we need coordinated action across the international community. We were pleased, therefore, that the 183 nations of the International Monetary Fund agreed in Ottawa to Canada's proposed action plan to combat the global financing of terrorism.

Mr. Speaker, at this point let me now raise another very important aspect of the fight to protect our way of life and our values. Since September 11th, there have been increased concerns over acts of intolerance within our own country. Individuals have been targeted because of the colour of their skin or the practice of their faith.

If ignored, intolerance can threaten the fabric of our nation and we must answer it. It can divide our communities and we must stop it. That is why the Government will provide new funding, aimed at fostering respect and promoting our values, values which have allowed us to welcome so many to Canada, so many who have enriched us so much.

Mr. Speaker, while our country has one of the safest air systems in the world, the attacks on the World Trade Center and the Pentagon have awakened new concerns and require a new response. It must be comprehensive in nature. It is a response that only the national government can provide.

Today, therefore, we are announcing that the Department of Transport will set rigorous new national standards for security in airports and on board flights originating in Canada. The Government is creating a new air security authority to put these standards into effect. To ensure that the same level of security is available right across the country, the Government will act in six key areas.

First, it will provide armed undercover police on Canadian aircraft.

Second, it will provide rigorous screening of both passengers and their carry-on luggage with more security personnel who will be better trained.

Third, to uncover explosive materials in passenger baggage, it will employ new, sophisticated detection systems.

Fourth, it will provide enhanced policing under federal authority at airports to respond to possible security threats.

Fifth, the Government will help pay for new, secure cockpit doors on Canadian passenger aircraft.

And sixth, we will tighten access to aircraft by creating improved security zones at handling facilities and on airport tarmacs.

Taken together, these airport and airline security measures will cost $2.2 billion over the next five years. To finance them, we will introduce a new security charge to be paid by air travellers – the primary users of the enhanced security measures. For travel in Canada, the charge will amount to $12 each way.

Finally, Mr. Speaker, just as we are moving to enhance Canadian security here at home, so too are we joined in the war against terrorism abroad. At this moment, 2000 men and women of the Canadian Forces are defending freedom on distant shores. They carry our cause and they have our prayers.

This budget therefore provides the funding needed for their participation in Operation Apollo. It is a significant commitment – indeed, Canada's Forces constitute the third largest contingent of any nation.

In summary, the measures I have announced today – for improved intelligence, additional policing and security officers, more rigorous enforcement of our refugee and immigration policies, enhancements to our capacity to respond to bio-terrorism, and safer air travel – amount to $6.7 billion over the next five years.

This includes as well $1.2 billion for the Department of National Defence and its agencies. This is in addition to the $3.9 billion increase in funding for National Defence announced since 1999, and which is now starting to come on stream.

Securing an Open Border

Mr. Speaker, Canada and the United States have agreed that we cannot close our borders to commerce in the hope of closing our countries to risk. Our two-way trade is the source of millions of jobs in both countries. While it is well known that most of our exports go to the U.S., what is less well known is that 25 per cent of American exports come to Canada. We are their largest market.

Indeed, the Canada-United States border is a compelling illustration of economic interdependence. We are sovereign and separate nations, but we are also the closest of neighbours; our relations are intertwined, our economies linked.

Our challenge, therefore, is to create a border that is open for business but closed to terror. This means going beyond the simple restoration of things as they were before September 11th. It means we must create the most modern, sophisticated border possible using state-of-the-art technology to speed legitimate traffic while stopping those who would do our countries harm.

Our American partners share this goal and have agreed to work with us to build what the Prime Minister has described as a "seamless but sovereign" border.

To these ends, therefore, first, we will speed up the implementation of pre-screening and pre-clearance programs that will allow frequent travelers and commercial shipments to move more quickly and easily from one country to the other.

Second, we will introduce state-of-the-art detection equipment to intercept firearms and explosives.

Third, we will establish new Integrated Border Enforcement Teams to work in cooperation with U.S. federal, state and local agencies.

All told, these new border initiatives will cost $650 million over the next five years.

In addition, if we are to create the most modern border in the world, we must invest in the physical infrastructure that supports it: first-class road access, new truck processing centres and intelligent transportation systems that pre-clear vehicles.

We will do whatever is required to move ahead, as quickly as possible on this initiative. And we look forward to doing so in partnership with the provinces, municipalities and the private sector.

To put this into effect, we are announcing today a $600 million program to fund infrastructure projects to facilitate cross-border trade in all parts of the country.

Strategic Investments: Bridging to the Future

Mr. Speaker, the measures announced so far this afternoon flow initially from the need to address the challenges arising out of September 11th.

What I should now like to do is set out a series of investments which, while providing important stimulus in a time of economic slowdown, focus as well directly on the need to advance the long-term economic plan we have set in train to build for the future. This is crucial because our economic success, our ability to create jobs, will be determined, first and foremost, by the degree to which we demonstrate an understanding of the great currents that are shaping the world of tomorrow.

These are to be seen in the transforming impact of new technologies. They are to be secured through strong economic fundamentals. And they are to be seized by focusing on the ingenuity and innovation of our people.

From the beginning, the Government has pursued a long-term plan which speaks to these priorities and which lays the foundation for strong and durable growth. Indeed, since balancing the books, almost 70 per cent of our new spending has gone to health care, education and innovation.

Health

In terms of health and early childhood development, last year the Prime Minister reached a historic, $23 billion accord with the provinces which will lead to, among other things, an increase in the number of doctors and nurses, providing new MRI machines, a better use of technology and improved health care.

As a result of this agreement, an additional $2.8 billion will flow to provincial governments for health this year, rising to $3.6 billion next year and more than $4 billion the year after that.

Secondly, since 1994, the Canadian Institute for Health Information has been developing the tools to advance health policies, improve health practices and strengthen our health system. To enable the Institute to continue its work, this budget provides $95 million in funding for a further four years.

Finally, in the 1999 budget, we created the Canadian Institutes of Health Research. These are breaking down the barriers between disciplines through 13 new institutes that are revolutionizing research in areas such as aging, cancer, diabetes, arthritis and women's health. To continue to build momentum, this budget provides the Institutes with an additional $75 million per year. This will bring their total funding to $561 million next year – double what we spent in this area just four years ago.

Skills

Mr. Speaker, knowledge is to the information age what steam was to the industrial age: it is the fuel that drives it, the energy that sustains it.

In the first budget following the elimination of the deficit, the Government made a major commitment to skills and learning. We introduced the Canadian Opportunities Strategy, which was based on the simple premise that people, regardless of income, who want an education should have that chance. This is particularly important now. When times are tough and people are hurting, we must provide every opportunity for Canadians to upgrade their skills.

Therefore, in order to encourage Canadians to pursue educational opportunities under Employment Insurance programs, we will introduce two new incentives. First, we will extend the education tax credit to individuals receiving EI assistance for their post-secondary education. And second, we will provide a deduction for people who receive EI assistance to obtain adult basic education.

Furthermore, this budget enhances Canada Study Grants for students with disabilities by increasing the maximum grant for exceptional costs associated with disabilities from $5,000 to $8,000.

Unions have asked us to change the EI rules with respect to apprentices. Currently, in order to qualify, apprentices must wait two weeks each time they leave the workforce for classroom training. Today, we will change that so they are subject to only one waiting period during their course of study.

In addition, to assist apprentice vehicle mechanics, we will provide a tax deduction for the extraordinary cost of mechanics' tools.

Canada's 29 sector councils are industry-led partnerships bringing together workers, employers and educators in a new, hands-on approach to skills development. From textiles to tourism to biotechnology, these councils are examining what skills are needed today and what skills will be needed for tomorrow, developing training programs and pointing workers toward emerging job opportunities. They are producing needed results. And we will expand the network quickly to include other strategic sectors, and we will double the funding for these councils to $60 million.

In the same vein, if Canada is to seize the tremendous opportunities of tomorrow, we must develop the next generation of business leaders today. To this end, the Government will make new investments, building on existing initiatives, to enable young entrepreneurs to receive mentoring, work experience and financial support to turn their ideas into reality in the world of science, technology and business.

Aboriginal Children

Mr. Speaker, the early years in children's lives are critical to their growth and well-being and lay the foundation for their learning, work and other endeavours. Last year, therefore, the federal government reached a landmark agreement with the provinces and territories to foster early childhood development right across Canada.

In the spirit of this agreement, we will build on existing federal programs, with a particular focus on First Nations children on reserves. It is, indeed, the quality of life of children today that will lead the First Nations to a better future tomorrow. That is why we will enhance initiatives such as the Head Start program and intensify efforts to reduce the incidence and effects of fetal alcohol syndrome. And we will do more to support children facing learning challenges in school.

All told, this budget will provide an additional $185 million over the next two years to help Aboriginal children receive the best possible start in life.

Research

Mr. Speaker, creating new knowledge – and bringing the products of that knowledge to market – are keys to success in the new economy. But breakthroughs don't happen by chance, they happen through sustained and dedicated effort.

Research today is the source of new jobs tomorrow. That is why the Government has made substantial investments to make Canada a leader in the new frontiers of knowledge.

In 1997, we created the Canada Foundation for Innovation to increase the capabilities of our universities, colleges and hospitals to carry out world-class research. This year alone, the Foundation will provide $300 million to institutions large and small to support state-of-the-art research infrastructure in areas such as health, the environment, natural sciences and engineering.

Next year, more than $480 million in grants will flow from the CFI which, combined with the leveraging from its partners, will support over $1 billion in new research infrastructure in Canadian universities.

Furthermore, to attract the best researchers from around the world – and retain the best in Canada – we established the Canada Research Chairs in Budget 2000. Last year, we provided funding for 400 such Chairs. That will double to 800 this year and rise to 1200 next year. When the program is fully implemented in 2004-05, there will be some 2000 new Research Chairs in Canadian universities.

Mr. Speaker, the success of the Canada Research Chairs Program will be measured by the quality of people it attracts.

Take for example Dr. Deborah Zamble, a Canadian who stayed in the U.S. to do post-doctoral work at the Harvard Medical School. Thanks to the program, she is now back home at the University of Toronto. The same holds true for Dr. Neil Adames of the University of Alberta who came back from the Washington University School of Medicine. Both are among the hundreds of world-class researchers who are finding new opportunities in Canada today and who are ensuring that their country will be at the cutting edge of the world's breakthroughs tomorrow.

As we have just seen, helping Canadian universities to build and operate top-rank research facilities has been a key priority of the Government for some time. In previous budgets we have provided substantial assistance to help meet the direct costs of research. However, many have told us that more help is now needed with respect to indirect costs of research. We agree.

That is why, last year, the Government announced $400 million for the Canada Foundation for Innovation to support grants toward the operating costs of the research infrastructure it funds. It is also why, when we designed the Canada Research Chairs Program, we did so to cover the total costs of research.

Looking ahead, we will work with the university community on ways to provide ongoing support for indirect costs that are both predictable and affordable. To that end, in this budget we are announcing a $200 million payment this year to help bridge the gap.

Mr. Speaker, as we know, basic research is the foundation upon which all applied research builds. That is why in past budgets we have provided additional resources for basic and applied research in the natural sciences and engineering, as well as the social sciences and humanities through their respective granting councils.

In this budget, we continue to go further. We will increase their funding by 7 per cent.

In the 1998 budget, Canada staked its claim to becoming the world leader in high-speed network technologies with the creation of CA*net 3. Today, to stay on the cutting edge, this budget provides $110 million to build and operate CA*net 4, which will benefit research organizations across the country, particularly many of our smaller universities and community colleges.

Looking ahead, as we indicated in the Speech from the Throne, we will work with Canadian industry, provinces, communities and the public on private sector solutions to further broadband Internet coverage in Canada, particularly for rural and remote areas. More planning is required to properly achieve our commitment, particularly given the rapidly changing technology and, as a consequence, we will shift our target to the end of 2005.

In looking at possible outcomes, it is our expectation that the best approach could very well be to expand the highly successful SchoolNet and Community Access programs to ensure broadband access. Therefore, not only are we extending these programs to 2003-04, at an annual cost of $40 million, we are also setting aside $35 million a year for three years thereafter to support such broadband expansion.

Mr. Speaker, the fruits of research must become a source of jobs for all Canadians. Not simply the source of ideas for others. We must not lose momentum now.

In order to build critical mass in emerging fields of knowledge, the National Research Council is building new technology centres, including the Electronic Commerce Centre in New Brunswick, the Advanced Aluminum Technology Centre in Quebec and the National Institute for Nanotechnology in Alberta. To support NRC technology centres elsewhere in Canada and to create the clusters necessary for success in the knowledge economy, this budget will increase the requisite funding by $40 million per year.

Mr. Speaker, there are few in our economy who have embraced innovation with more energy than those in the agricultural community. Recent years, however, have been difficult for many farm families, particularly those dependent upon grains and oilseeds.

That is why the Minister of Agriculture and Agri-Food is working with his provincial and territorial colleagues, as well as with farm groups, to create a new, integrated and financially sustainable agricultural policy.

It is why the Prime Minister formed the Caucus Task Force on Future Opportunities in Farming.

Today, the Government reaffirms its commitment to this process of renewal and confirms that we will provide our share of the long-term, predictable funding that will support the new approach to agriculture.

International Aid

Mr. Speaker, just as we are investing in our prospects at home, we must also recognize that we have obligations beyond our borders, to those most in need.

Indeed, the Prime Minister has led the way in making African development a centrepiece of the G-8 Summit Canada will host in June. As a caring people, Canadians know that hunger knows no creed, misery no religion. To help reduce poverty, provide primary education for all and set Africa on a sustainable path to a brighter future, this budget establishes a new $500 million Africa Fund.

Furthermore, in the context of our international obligations to people and countries in need, we also must help those most directly affected by the war in Afghanistan – the Afghan people themselves. To provide them with aid and comfort, food and clothing, this budget commits $100 million.

And finally, we will provide $400 million in further international assistance. That will bring our total new commitment in this budget to $1 billion over three years.

Infrastructure

Mr. Speaker, a modern economy must have the basic infrastructure to support it. Whether it is highways, urban transit or fishing harbours, Canada must have the physical infrastructure it needs to succeed. Investments in infrastructure will stimulate job creation in the short and medium term and make the economy more productive and competitive in the long term.

These are things that must be done and now is the time to do them. We recognize that the costs of these projects are often enormous – beyond the capacity of any one level of government.

A prime example, Mr. Speaker, is Canada's bid for the 2010 Olympics. We know British Columbia will provide a magnificent setting, and we share the hopes and dreams of the people of Whistler and Vancouver. That is why we are pleased to announce at this point that we will provide the funding requested to support their bid. If the bid is successful, we will do more.

We also recognize that our great cities are too important to our economy, to our quality of life, to our signature as a nation, to leave them in straightened circumstances.

We recognize as well that the same reasoning holds true for smaller, rural or remote municipalities, all of which are hard pressed to find the resources required to foster the economic development they need to offer their young people a future in their own communities.

That is why, in Budget 2000, we announced a new program, in partnership with the provinces and municipalities, to rebuild and renew the country's infrastructure. The federal contribution is $2 billion, which should begin to flow in a substantial way in a matter of months, as will the $600 million for highways announced at the same time.

Today, I want to announce that we are creating a new foundation focusing on strategic infrastructure in order to finance large projects across Canada beyond the capacity of existing programs. The Strategic Infrastructure Foundation will work with municipal and provincial governments, as well as promoting partnerships with the private sector, to meet the essential infrastructure needs of the 21st century economy. The Canadian government will commit a minimum of $2 billion to this foundation.

Mr. Speaker, when we speak of infrastructure, we speak not only of the building blocks of trade and commerce, but of the foundation stones of a society. Housing is a basic need of every Canadian, seniors and young families alike, and meeting that need must be the responsibility of us all. In many of our urban centres, there is a shortage of affordable rental housing. There are also problems with housing in remote areas.

To address these problems, the Government announced the commitment of $680 million over five years for affordable housing. We are pleased that a framework agreement has now been reached with the provinces and territories and look forward to construction beginning as soon as possible.

Mr. Speaker, in Budget 2000, we announced a number of initiatives aimed at both sustaining our environment and developing innovative technologies.

Two of those initiatives – the $25 million Green Municipal Enabling Fund and the $100 million Green Municipal Investment Fund – have already spawned more than 100 projects in areas as diverse as energy and water savings, urban transit, waste diversion and renewable energy. These funds are improving the quality of our life and securing our position as a leader in environmental technology. We would like to congratulate the Federation of Canadian Municipalities both for its initiative and for its management of these Funds. Today, as a result, we are announcing that we will double our contribution to both funds.

Mr. Speaker, across Canada, as in most countries, contaminated land lies unused and unproductive. Such sites, known as brownfields, may have the potential for rejuvenation, bringing both health and economic benefits to local communities.

Therefore, responding to the Government, the National Round Table on the Environment and the Economy has agreed to develop a National Brownfield Redevelopment Strategy in order to ensure that Canada is a global leader in remediation.

Recognizing that there are few things more basic to life than the quality of the air we breathe, and in order to reduce greenhouse gases that contribute to climate change, this budget will fund a new, long-term program to provide incentives for the production of a key source of renewable energy – wind power.

Mr. Speaker, before reporting on the state of the nation's finances, let me touch on one final but very important area.

All of us recognize the vital role small and medium-sized business play in the creation of jobs and growth in our economy.

In past budgets, we have introduced a number of measures aimed at addressing their specific concerns. We do so again today.

Earlier, I set out an extensive program to facilitate our important cross-border trade with the U.S. While those measures will benefit all Canadians, more can be done to ensure the ongoing growth of our small business sector.

Therefore, first, to make it easier to get their goods across the border, where volumes dictate, we will establish small-business desks, which will offer personalized assistance.

Second, we will put in place new systems to enable smaller businesses to prepare, file and pay their import declarations over the Internet.

Finally, to improve their cash flow in the face of the economic slowdown, we will allow small and medium-sized businesses to defer their corporate tax instalments of the next three months – that is, January, February and March of 2002 – for a period of six months.

In total, this will defer – without interest or penalty – $2 billion in taxes for small businesses.

Let us turn now to the finances of the nation.

Fiscal Projections

Mr. Speaker, it has been our practice to establish a Contingency Reserve in our projections of some $3 billion to guard against the unexpected. It has also been our practice to use it, when not needed, to pay down debt.

This year, faced with the circumstances of the global slowdown and the unforeseen security requirements flowing from September 11th, we have had to use portions of the Contingency Reserve for this and the next two years.

As a result, the Contingency Reserve for the four months remaining of this year will be $1.5 billion. Given the projections for the economy, any such reserves at this year-end will not be used to pay down the debt but to finance the Strategic Infrastructure Foundation and the Africa Fund. That being said, I can now confirm that we will balance the budget this year, the fifth year in a row, something we haven't seen in 50 years.

For 2002-03, the Contingency Reserve will be $2 billion and, for 2003-04, it will be $2.5 billion.

With these reserves as buffers, I can also confirm that if current projections hold or even using the average of the four most pessimistic private sector growth forecasts, we will balance the budget – or better – next year and the year after that for a total of seven balanced budgets in a row.

Choices

Mr. Speaker, this budget reflects the decisions we have made in the face of this present uncertainty. They demonstrate our determination to help Canadians through this difficult period.

Our choices also reflect a clear-eyed assessment of what we can and cannot do. Simply put, we cannot turn around the American economy – our largest export market.

What we can do is provide support for Canadians to come through the storm – and we are doing so.

First, by putting our fiscal house in order and by meeting our inflation targets, we made it possible for monetary policy to provide significant stimulus through lower interest rates. As a result, the Bank of Canada has been able to reduce short-term interest rates by 3.5 percentage points – with half of this decline coming since September 11th.

This means real dollars in the pockets of Canadians. To a family seeking a mortgage of $100,000, it means annual mortgage payments are $2,200 less than they were a year ago. To a small business, with a $250,000 bank loan tied to the prime lending rate, it means annual payments are about $9,000 less than they were a year ago.

Next, we have provided major stimulus through lower taxes. In Budget 2000, we introduced the largest tax cuts in Canadian history. Last October, we accelerated that plan. This year, lower taxes have put $17 billion back into the pockets of Canadian families and businesses. By next year, the value of the tax cuts will grow to $20 billion. This is significant stimulus and it is already working its way through the economy.

For instance, for a two-earner family of four, with a combined income of $60,000, these tax cuts mean $1,000 in savings this year – an 18 per cent reduction. In less than three years, their taxes will fall by 34 per cent.

A one-earner family of four earning $40,000 will pay about $1,100 less in taxes this year – a savings of 32 per cent. By 2004, this family will pay almost $2,000 less in tax – a 59 per cent reduction.

Finally, the stimulus being provided through the strategic investments announced in this budget or coming on stream will amount to some $9 billion this year, rising to $11 billion next year.

When you put this spending together with the tax cuts – without even counting the benefits of lower interest rates – they provide a total stimulus of almost $26 billion or 2.4 per cent of GDP this year and $31 billion or 2.8 per cent of GDP next year. This provides enormous support for the Canadian economy, and does so in ways consistent with our long-term plan for the future.

Managing an economy through tough times means striking the right balance. This budget does that. It provides vital support at a critical time. But it does not go so far as to jeopardize either the progress of our past or the prospects of our future. It builds on the strong fundamentals Canadians have worked so hard to achieve. For just as we must face our challenges squarely, so must we understand our strengths fully.

The fact is we face the current slowdown in much better shape than we did the last one, in the early 1990s. At that time, the budget had been in deficit for two decades. Today, we are posting our fifth consecutive balanced budget.

In the mid-1990s, our debt-to-GDP ratio hit 71 per cent. By next year, it will fall to below 50 per cent for the first time in 17 years.

In the mid-1990s, 36 cents of every tax dollar went to debt servicing. Today, that number has been reduced to 23 cents. Indeed, in the past four years, we have paid down nearly $36 billion in debt, $17.1 billion last year alone, relieving Canada of more than $2.5 billion a year in interest payments.

In the early 1990s, Canada had a large current account deficit and our foreign debt was rising. Today, we have a large current account surplus and our foreign debt has fallen from 44 per cent of GDP to roughly 20 per cent.

Prior to the 1990s, Canada had a poor record on inflation. Today, we have a decade-long track record of hitting our inflation targets.

In the early 1990s, our fiscal credibility was low, resulting despite problems in the economy in short-term interest rates of over 13 per cent. Today, short-term interest rates have fallen to about 2 per cent – their lowest levels in more than 40 years.

Finally, in the early 1990s, a number of Canadians had serious concerns about the sustainability of our retirement income system. Today, the Canada Pension Plan is secure and on a strong footing, as confirmed by the independent actuarial report tabled today.

What is important in all of this is that what we have accomplished as a people in recent years will not only help us to ride out the current storm, it puts us in a position to take full advantage of the economic recovery when it comes.

Conclusion

For this reason, Mr. Speaker, we will not let the events of September 11th shake us from our course.

The history of our country is one of great achievement, of looking beyond the problems of the moment to the opportunities ahead. Every generation of Canadians has contributed to that record. Each has demonstrated that quality of optimism. Now it falls to us to prepare for a better tomorrow.

There is no miracle here. This will be achieved because of the way we govern ourselves in this period of global uncertainty:

Dealing with current needs while avoiding the mistakes of the past.

Preserving our ability to pursue our long-term plan to invest in people, reduce taxes, reduce debt, invest in a stronger economy, and a fairer society.

Canadians remember the hard choices of the 1990s as we worked to pull ourselves out of deficit. We will not play fast and loose with the finances of the nation. We will not place on our children and our children's children a burden they should not have to bear, a mortgage they should not have to pay.

Look at what we have accomplished as Canadians these past few years. We have eliminated a crippling deficit and increased the child tax benefit. We have re-indexed the tax system to benefit low-income Canadians, while paying down massive amounts of debt. We have cut taxes while investing in our children, in education, in research and in health care.

Let there be no doubt: the plan that brought us these benefits will see us through the current downturn. It will prepare us for the recovery ahead. It is a plan that sees policy as the means, but better lives for people as the end; that understands the currents of fundamental change and positions Canadians to turn that change to their advantage. It is a plan that knows that in a world where technology has made every nation a neighbour, only a few will lead the way and that Canada must be one of them.

That is what this budget is about. It is about dealing with the present so that we can seize the future. It is about resolving to work together as never before, renewed in purpose, confident of our course and guided through changing times by unchanging values.

It is a budget anchored in the knowledge that, as a country, we have only begun to scratch the surface of what we can do. That so much more awaits us. That an even stronger and more prosperous future lies within our grasp.

Securing progress in an uncertain world

The Budget in Brief 2001

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

December 10, 2001

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Canada

Securing progress in an uncertain world

The Budget in Brief 2001

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Ministère des Finances Canada

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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the $100-billion tax cut and the $23.4 billion in increased support for health care and early childhood development.

Global Economic Slowdown and Implications for Canada

Economic growth in all major economies slowed sharply in the first half of this year. A variety of factors contributed to the global slowdown, including higher interest rates and energy prices and a sharp decline in global high technology investment. The events of September 11 introduced a further shock to the global economy through disruptions in economic activity and sharp declines in confidence, particularly in the United States.

Forecasters have further downgraded their outlook for the U.S. economy, incorporating a recession now underway. Weakness in the U.S. economy is expected through the first half of 2002, followed by a rebound in the second half of the year.

This is affecting the Canadian economy, which has slowed considerably in response to weaker export demand from our largest trading partner. The Canadian economy contracted in the third quarter, and most private sector forecasters expect further weakness in the fourth quarter. They expect positive but modest growth in the first half of 2002, with growth picking up in the second half of the year.

There is considerable uncertainty in the global outlook. If U.S. consumer and business confidence erode further, global growth could remain weak and the recovery could be delayed.

Canada is better positioned than in the previous downturn of the early 1990s to weather difficult economic times because of:

- healthier finances through balanced budgets and debt repayment;
- the $100-billion tax cut, proportionately larger than in the U.S.;
- low and stable inflation;
- declining foreign debt; and
- historically low interest rates.

Canada's Fiscal Progress Through 2000-2001

The federal government recorded a budgetary surplus of $17.1 billion in 2000-01. This is the largest annual surplus since Confederation and the fourth consecutive annual surplus, following surpluses of $3.5 billion in 1997-98, $2.9 billion in 1998-99 and $12.3 billion in 1999-2000.

Net public debt has declined $35.8 billion from its peak of $583.2 billion in 1996-97 to stand at $547.4 billion. This debt paydown, coupled with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP (gross domestic product) ratio, from its peak of 70.7 per cent in 1995-96 to 51.8 per cent in 2000-01. This decline in net public debt has resulted in ongoing savings in debt interest payments of about $2.5 billion each and every year.

Federal market debt – the debt issued on credit markets – has declined by over $30 billion from its peak of $476.9 billion in 1996-97 to $446.4 billion in 2000-01. The market debt-to-GDP ratio has declined to 42.3 per cent, down from its peak of 57.8 per cent in 1995-96.

The amount of every revenue dollar collected by the federal government that is used to pay interest on the public debt declined to 23.6 cents in 2000-01, down from 36 cents in 1995-96, and is now at its lowest level since 1981-82.

Federal program spending as a percentage of GDP has fallen from 16.4 per cent in 1993-94 to 11.3 per cent in 2000-01, its lowest level since 1948-49. More than two-thirds of the improvement in the budgetary balance since 1993-94 is attributable to the decline in program spending.

The aggregate provincial-territorial budget recorded a record surplus of $12 billion in 2000-01, the second consecutive surplus. Eight provinces and two territories reported budgetary surpluses in 2000-01.

On a total government basis, between 1992 and 2000 Canada achieved the largest improvement in its financial balance of all Group of Seven (G-7) countries. In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent for the G-7 countries.

Private Sector Five-Year Economic and Fiscal Projections

The Department of Finance meets each fall with the chief economists of the major chartered banks and three private sector economic forecasting firms. The objective of this exercise is to agree on a set of economic assumptions for planning purposes, which the forecasting firms then use to develop fiscal projections of the budgetary balance for the current fiscal year and each of the next five years. However, because of the greater degree of uncertainty associated with longer-term projections, budget decisions are made on a rolling two-year horizon.

In the absence of any policy decisions proposed in this budget, the average private sector projections of the surplus for fiscal-planning purposes are $7.3 billion in 2001-02, $3.8 billion in 2002-03, $5.7 billion in both 2003-04 and 2004-05, $9.7 billion in 2005-06 and $14.3 billion in 2006-07.

These projections of the fiscal surplus reflect the effects of the slowdown in economic growth in both 2001 and 2002 and the rebound in the years thereafter. In addition, the agreements on health renewal and early childhood development reached by first ministers in September 2000 and the impact of the $100-billion Five-Year Tax Reduction Plan further restrain the surplus projections to 2004-05 – the year in which the tax reduction plan is fully implemented. Thereafter larger surpluses are projected.

These fiscal projections are based on the October 2001 survey of private sector economists. Subsequently private sector economists have adjusted their short-term economic forecasts to incorporate more current data, including the third-quarter National Accounts results for Canada and the U.S., which were released on November 30, 2001. These adjusted economic assumptions were used in deriving the rolling two-year budget fiscal forecasts.

Enhancing Security for Canadians

The 2001 budget contains measures to enhance personal and economic security by: keeping Canadians safe, keeping terrorists out of Canada and keeping Canada's borders secure, open and efficient.

In total, the budget provides $7.7 billion over the next five years to enhance security for Canadians. This includes $6.5 billion for security, including air security and Canada's military. It also includes more than $1.2 billion for border initiatives aimed at strengthening border security, facilitating the flow of goods and people, and improving border infrastructure.

Security

Intelligence and Policing

The budget includes $1.6 billion over the next five years for intelligence and policing to:

- equip and deploy more intelligence officers and police officers;
- improve co-ordination and information sharing among law enforcement, intelligence and national security agencies;
- boost marine security through greater funding for coastal surveillance; and
- strengthen the role of the Financial Transactions and Reports Analysis Centre of Canada in cutting off terrorist financing.

Screening of Entrants to Canada

In total, $1 billion will be provided over the next five years to improve the screening of visitors, immigrants and refugee claimants entering Canada. These initiatives include:

- better and more accurate screening both at Canada's ports of entry and abroad; and
- faster and more thorough screening of refugee claimants.

Emergency Preparedness and Military Deployment

Budget 2001 provides more than $1.6 billion to:

- double the capacity of Joint Task Force Two – the Canadian Forces' elite anti-terrorist unit;
- support Canadian military participation in the international war on terrorism;
- fund military equipment purchases;
- improve laboratories and purchase specialized equipment to strengthen Canada's ability to respond to chemical, biological and nuclear threats; and
- improve the ability to protect Canada's critical infrastructure – such as water and energy utilities and transportation and communications systems.

A New Approach to Air Security

In total, $2.2 billion will be provided over the next five years to make air travel more secure in accordance with rigorous new national Transport Canada standards. To ensure that these standards are met, the Government will create a new federal air security authority.

New air security measures will include:

- armed undercover police officers on Canadian aircraft;
- better-trained personnel to screen passengers and carry-on baggage;
- new state-of-the-art explosive detection systems at Canada's airports;
- enhanced policing in airports;
- permanent modifications to aircraft cockpit doors to make them more secure; and
- enhanced security zones at airports, including handling facilities and on tarmacs.

These measures will be funded by a new Air Travellers Security Charge to be paid by air travellers starting April 1, 2002.

A Secure, Open and Efficient Border

More than $1.2 billion will be invested in border-related measures to address security concerns and enhance long-term economic prospects by making the Canada-U.S. border more open and efficient.

Border Security and Facilitation

Of the more than $1.2 billion dedicated to border-related measures, $646 million will be targeted to measures aimed at enhancing border security while facilitating the flow of goods and people between Canada and the United States. These include:

- new technology to help the Canada Customs and Revenue Agency facilitate the passage of goods and people at border-crossing points;
- new Canadian multi-agency Integrated Border Enforcement Teams to co-ordinate intelligence and enforcement efforts along the Canada-U.S. border;
- advanced information-sharing technology to help Customs officers screen travellers arriving at airports and other border-entry points;
- better equipment for detecting explosives, firearms and other dangers without delaying the flow of legitimate commerce or tourism; and
- new secure Internet-based technology to ease Customs compliance for small business.

Border Infrastructure

To help make the border more efficient, Budget 2001 also creates a new $600-million program to improve infrastructure – such as highways, commercial vehicle processing centres and technology – that supports major border crossings. This will be done in co-operation with public and private sector partners on both sides of the border.

Strategic Investments: Bridging to the Future

Budget 2001 addresses immediate needs through targeted, strategic investments that provide a stimulative boost to confidence in the economy. It does so as it advances, in a fiscally affordable way, the long-term plan the Government has put in place.

Investing in Health Initiatives

Because Canada's publicly funded health care system reflects the fundamental values shared by all Canadians, the budget:

- confirms that the $23.4 billion in funding to support health and early childhood development agreements reached by first ministers in September 2000 is fully protected;
- further strengthens the federal government's contribution to Canada's health care system by providing $95 million to the Canadian Institute for Health Information; and
- provides a $75-million increase to the annual budget of the Canadian Institutes of Health Research.

Investing in Skills, Learning and Research

Because the Government is committed to providing every opportunity for Canadians to upgrade their skills, and because research today is the source of new jobs tomorrow, the budget includes more than $1.1 billion over three years to support skills, learning and research by:

- increasing funding for sector councils;
- improving support for people with disabilities who pursue higher education;
- reducing waiting period provisions for apprentices in the employment insurance (EI) program, allowing an income tax deduction for apprentice vehicle mechanics' tools, and assisting mentoring and business support to young entrepreneurs;

- exempting from income tax, tuition assistance for adult basic education provided under certain government programs, and extending access to the education tax credit;
- helping offset indirect research costs at universities and research hospitals;
- supporting leading-edge technologies and expanding regional innovation initiatives across the country through increased funding to the National Research Council of Canada;
- providing additional funding to the Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council; and
- extending funding for Internet initiatives including SchoolNet, the Community Access Program and Government On-Line, and building CA*net 4, a new generation of Internet broadband network architecture.

In total, the Government's expenditures on science and technology are estimated at $7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

Investing in Strategic Infrastructure and the Environment

Because investments in infrastructure will both stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term, the budget announces targeted investments of nearly $3 billion that:

- create the Strategic Infrastructure Foundation, with a minimum federal commitment of $2 billion, to fund large strategic projects;
- confirm $680 million in funding for a capital grants program to alleviate the shortage of affordable rental housing;
- double funding to the Green Municipal Enabling Fund and the Green Municipal Investment Fund; and
- enhance incentives for renewable energy and energy efficiency projects.

Aboriginal Children

Because the well-being of Aboriginal children today will lead to stronger First Nations communities in the future, this budget provides $185 million over the next two years to:

- enhance programs such as child care and head start programs, which support early childhood development;
- intensify efforts to reduce the incidence of fetal alcohol syndrome and fetal alcohol effects on reserves; and
- provide increased funding to support children on reserves who have special needs at school.

Furthering International Assistance

Because Canada recognizes the importance of helping those most in need beyond its borders, the budget increases international assistance by $1 billion over three years. Among other things, the budget will:

- commit $500 million to a fund promoting sustainable development in Africa; and
- provide humanitarian emergency assistance in Afghanistan.

Financial Management in Uncertain Times

This budget projects balanced budgets or better for 2001-02 and for each of the next two fiscal years. The global economic outlook remains uncertain. However, even using the average of the four most pessimistic private sector forecasts, balanced budgets are still projected for each year of the budget plan.

Program spending is projected to increase by 9.4 per cent in 2001-02. Over three-quarters of this increase is due to higher cash transfers to the provinces and territories for health care, funding to enhance security, and higher EI and elderly benefits.

Budgetary revenues are projected to decline in 2001-02, reflecting the impact of the second year of the Government's tax reduction plan, the six-month deferral of monthly corporate tax instalment payments for small businesses, and the weakness in the economy.

The debt-to-GDP ratio is expected to fall to under 50 per cent in 2002-03, its lowest level in 17 years.

The unforeseen circumstances of both the global economic slowdown and the terrorist attacks of September 11th have created exceptional fiscal pressures. As a result, the Government will use the economic prudence and part of the Contingency Reserve for each year of the budget plan. The Contingency Reserve is set at $1.5 billion for 2001-02, rising to $2.0 billion in 2002-03 and $2.5 billion in 2003-04. It is the Government's intention to rebuild the normal Contingency Reserve and economic prudence as soon as possible.

In good economic times the Government paid down a substantial amount of debt – $35.8 billion in the last four years. Given the current economic weakness, it has decided not to pay down any debt this year. Any surplus at the end of fiscal year 2001-02 will be dedicated to the Strategic Infrastructure Foundation and the Africa Fund.

Summary of Spending and Revenue Initiatives Since the October 2000 Economic Statement

Table 1 presents the fiscal impact of the spending and revenue initiatives proposed in this budget. Table 2 presents the fiscal impact of the measures announced since the October 2000 Economic Statement but before the 2001 budget. Table 3 shows the total fiscal impact of all measures proposed since the October 2000 Economic Statement.

The cumulative cost of the measures over the three years from 2001-02 to 2003-04 amounts to $8.5 billion. Of this amount, $4.2 billion, or nearly half, is for measures directed at enhancing security for Canadians.

Table 1
Spending and Revenue Initiatives Proposed in the 2001 Budget

	2001-2002	2002-2003	2003-2004
	(millions of dollars)		
Spending initiatives proposed in this budget			
Enhancing security for Canadians			
Security	1,067	1,217	1,236
Secure, open and more efficient Canada-U.S. border	72	306	260
Total	1,139	1,523	1496
Bridging to the future			
Investing in health	105	78	78
Investing in skills, learning and research	429	318	318
Strategic infrastucture and the environment	207	181	234
Strategic Infrastructure Foundation: minimum commitment of $2 billion			
Aboriginal children		90	95
International assistance	215		285
Africa Fund: commitment of $500 million			
Total	956	667	1,010
Departmental operations	569	361	198
Total spending initiatives	**2,664**	**2,551**	**2,703**
Revenue and cost recovery initiatives proposed in this budget			
Deferral of corporate income tax instalments for small businesses	2,000	-2,000	
Tax expenditures	10	40	60
Air Travellers Security Charge		-430	-445
Cost recovery		-50	-50
Total	**2,010**	**-2,440**	**-435**
Total spending, revenue and cost recovery initiatives	**4,674**	**111**	**2,268**

Table 2
Spending and Revenue Initiatives Announced Before the 2001 Budget

	2001-2002	2002-2003	2003-2004
	(millions of dollars)		
Spending initiatives			
Improving the quality of life for Canadians and their children			
Community health and environment	173	180	167
Culture and branding Canada abroad	305	395	196
Crime prevention and drug strategy	30	30	30
Employment insurance benefits	35	89	89
Community safety and crime prevention	23	32	45
Total	565	726	526
Making Canada's economy more innovative			
Research and development Government On-line	120		
Providing essential public services			
Economic adjustment	183	103	120
Furthering international co-operation	25	37	26
Total	208	140	146
Total spending initiatives	**894**	**866**	**672**
Revenue initiatives			
Donations of certain publicly traded securities to charities		70	70
Tobacco tax increases	-275	-440	-440
Total	-275	-370	-370
Total spending and revenue initiatives	**619**	**496**	**302**

Table 3
Spending and Revenue Initiatives Proposed Since the October 2000 Economic Statement

	2001-2002	2002-2003	2003-2004
	(millions of dollars)		
Spending initiatives			
Enhancing security for Canadians	1,139	1,523	1,496
Bridging to the future	1,076	667	1,010
Improving the quality of life for Canadians and their children	565	726	526
Providing essential public services	777	501	344
Total	3,557	3,417	3,375
Revenue and cost recovery initiatives			
Deferral of corporate income tax instalments for small businesses	2,000	-2,000	
Tax expenditures	10	105	120
Air Travellers Security Charge		-430	-445
Tobacco tax increases	-275	-440	-440
Cost recovery		-50	-50
Total	1,735	-2,815	-815
Total spending and revenue initiatives since the October 2000 economic statement	5,293	602	2,560

Note: Numbers may not add due to rounding.

Fiscal Outlook to 2003-04

Table 4 presents the fiscal outlook to 2003-04, taking into account the spending and revenue initiatives proposed since the October 2000 Economic Statement.

Table 4
Summary Statement of Transactions: Budget 2001

	2000-2001	2001-2002	2002-2003	2003-2004
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	178.6	171.3	174.7	180.7
Program spending	119.3	130.5	136.6	140.2
Operating balance	59.2	40.7	38.2	40.4
Public debt charges	42.1	39.2	36.3	38.1
Less: Contingency Reserve		1.5	2.0	2.5
Budgetary balance	**17.1**	**0.0**	**0.0**	**0.0**
Net public debt[1]	547.4	547.4	547.4	547.4
Non-budgetary transactions				
Loans, investments and advances	-1.7	-1.9	-1.9	-2.2
Pensions and other accounts	1.3	-1.7	0.0	2.6
Other	2.2	1.7	0.9	0.8
Total	1.8	-1.9	-1.0	1.2
Financial requirements/source	19.0	-1.9	-1.0	1.2
Per cent of GDP				
Budgetary revenues	16.9	15.8	15.9	15.5
Program spending	11.3	12.0	12.4	12.1
Public debt charges	4.0	3.6	3.3	3.3
Net public debt[1]	51.8	50.5	49.9	47.1

Note: Numbers may not add due to rounding.

[1] Assumes no incremental debt paydown.

Securing progress in an uncertain world

Budget 2001

Enhancing Security for Canadians

December 10, 2001

6

Canada

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Budget 2001

Enhancing Security for Canadians

Department of Finance Canada
Ministère des Finances Canada

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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the $100-billion tax cut and the $23.4 billion in increased support for health care and early childhood development.

"Canadians have been confronted with a new kind of threat at home – and to protect ourselves, we must respond in new kinds of ways."

Finance Minister Paul Martin
2001 budget speech

Highlights

- The 2001 budget contains measures to enhance personal and economic security by:
  - keeping Canadians safe;
  - keeping terrorists out of Canada; and
  - keeping Canada's borders secure, open and efficient.
- In total, the budget provides $7.7 billion over the next five years to enhance security for Canadians.
  - This includes $6.5 billion for security, including air security and Canada's military.
  - It also includes more than $1.2 billion for border initiatives aimed at strengthening border security, facilitating the flow of goods and people, and improving border infrastructure.

1. Security

A. Intelligence and Policing

- The budget includes $1.6 billion over the next five years for intelligence and policing to:
  - equip and deploy more intelligence officers and police officers;
  - improve co-ordination and information sharing among law enforcement, intelligence and national security agencies;
  - boost marine security through greater funding for coastal surveillance; and
  - strengthen the role of the Financial Transactions and Reports Analysis Centre of Canada in cutting off terrorist financing.

B. Screening of Entrants to Canada

- $1 billion will be provided over the next five years to improve the screening of visitors, immigrants and refugee claimants entering Canada. These initiatives include:
  - better and more accurate screening both at Canada's border and abroad; and
  - faster and more thorough screening of refugee claimants.

C. Emergency Preparedness and Military Deployment

- Budget 2001 provides more than $1.6 billion to:
  - double the capacity of Joint Task Force Two – the Canadian Forces' elite anti-terrorist unit;
  - support Canadian military participation in the international war on terrorism;
  - fund military equipment purchases;
  - improve laboratories and purchase specialized equipment to strengthen Canada's ability to respond to chemical, biological and nuclear threats; and
  - improve the ability to protect Canada's critical infrastructure – such as water and energy utilities and transportation and communications systems.

2. A New Approach to Air Security

- $2.2 billion will be provided over the next five years to make air travel more secure in accordance with rigorous new national Transport Canada standards.
- To ensure that these standards are met, the Government will create a new federal air security authority.
- New air security measures will include:
  - armed undercover police officers on Canadian aircraft;
  - better-trained personnel to screen passengers and carry-on baggage;

- new state-of-the-art explosive detection systems at Canada's airports;
- enhanced policing in airports;
- permanent modifications to aircraft cockpit doors to make them more secure; and
- enhanced security zones at aircraft handling facilities and on tarmacs.

- These measures will be funded by a new Air Travellers Security Charge to be paid by air travellers starting April 1, 2002.

3. A Secure, Open and Efficient Border

- More than $1.2 billion will be invested in border-related measures to address security concerns and enhance long-term economic prospects by making the Canada-U.S. border more open and efficient.

A. Border Security and Facilitation

- Of the more than $1.2 billion dedicated to border-related measures, $646 million will be targeted to measures aimed at enhancing border security while facilitating the flow of goods and people between Canada and the United States. These include:
  - new technology to help the Canada Customs and Revenue Agency facilitate the passage of goods and people at border–crossing points;
  - new Canadian multi-agency Integrated Border Enforcement Teams to co-ordinate intelligence and enforcement efforts along the Canada-U.S. border;

- advanced information-sharing technology to help Customs officers screen travellers arriving at airports and other border-entry points;
- better equipment for detecting explosives, firearms and other dangers without delaying the flow of legitimate commerce or tourism; and
- new secure Internet-based technology to ease Customs compliance for small business.

B. Border Infrastructure

- To help make the border more efficient, Budget 2001 also creates:
  - a new $600-million program to improve infrastructure – such as highways, commercial vehicle processing centres and technology – that supports major border crossings. This will be done in co-operation with public and private sector partners on both sides of the border.

Introduction

The legacy of September 11 is a sense of insecurity – both personal and economic. Key to rebuilding confidence is ensuring that people are safe, and that borders are secure, yet open and efficient.

The Government's response has been swift. The Prime Minister appointed the Ad Hoc Committee of Ministers on Public Security and Anti-Terrorism, which has overseen a number of initiatives, including:

- providing for initial actions in the security, law enforcement and intelligence areas;
- introducing legislation that takes aim at terrorism and enhances Canada's ability to identify, prosecute and punish terrorists; and
- moving expeditiously to cut off sources of financing for terrorists.

Budget 2001 builds on these initiatives through a comprehensive set of security measures designed to keep Canadians safe, keep terrorists out and keep our borders open. It provides a total of $7.7 billion over the next five years to enhance security for Canadians and make Canada's borders more secure, open and efficient.

These measures recognize that Canadians have been confronted with a new kind of threat – one that is aimed at undermining freedom and disrupting the economy. Responding to this threat is crucial to the security of individuals, not only in Canada but worldwide.

The global reinsurance industry has been greatly impacted by the events of September 11. The Government is monitoring the Canadian situation and is working with the insurance industry and other affected parties to determine what action may be required.

The budget includes $6.5 billion for security, emergency preparedness and the military. Also included in this amount is funding to a new federal authority, which will deliver enhanced security services at airports and on board flights according to rigorous new national standards set by Transport Canada.

Maintaining a secure yet open border with the U.S. is of particular importance to Canada. Indeed, the governments of both countries have agreed that security and openness go hand in hand, and have committed to work together to address their mutual security concerns and economic goals.

Two-way trade between Canada and the U.S. is the source of millions of jobs in both countries, accounting for close to $2 billion of commerce every day. Canadian and American factories depend on just-in-time delivery of parts, and Canadians need ready access to their U.S. customers. Tourism depends on making border crossings as quick and efficient as possible, and investors must be confident that the border will remain open.

The 2001 budget responds to this challenge through measures designed to create a more modern, sophisticated border, using state-of-the-art technology that stops individuals and shipments that pose a security risk while speeding legitimate traffic.

In total, this budget provides more than $1.2 billion over the next five years to fund these border measures, including a $600-million program to improve border infrastructure.

Table 1
Expenditures

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	Total
				(millions)			
SECURITY[1]							
Intelligence and policing							
Equipping and deploying more intelligence and police officers	235	182	189	193	190	188	1,177
Improving co-ordination and information sharing	7	10	15	15	15	15	76
Enhanced marine security	5	12	13	10	10	10	60
Cutting off terrorist finances	10	15	10	10	10	10	63
Other initiatives	16	25	29	31	31	31	163
Contingency	–	10	20	20	20	25	95
Subtotal	**273**	**253**	**276**	**279**	**275**	**278**	**1,634**
Screening of entrants to Canada							
Better and more accurate screening	89	61	61	61	61	61	395
More resources for detentions, removals and refugee determination	30	42	42	32	32	32	210
Fraud-resistant documents	25	73	61	44	42	42	287
Contingency	–	10	20	20	30	30	110
Subtotal	**143**	**186**	**184**	**157**	**165**	**165**	**1,001**
Emergency preparedness and military deployment							
Supporting Canada's military	400	110	–	–	–	–	510
Expanded anti-terrorist capacity	44	15	15	15	15	15	119
Chemical, biological, radiological and nuclear threats	62	110	95	92	77	77	513
Emergency preparedness	30	71	74	74	75	75	396
Contingency	–	10	20	20	25	25	100
Subtotal	**535**	**316**	**204**	**201**	**192**	**192**	**1,638**
A NEW APPROACH TO AIR SECURITY	**115**	**462**	**573**	**367**	**366**	**306**	**2,189**
Total security initiatives	**1,067**	**1,217**	**1,236**	**1,003**	**998**	**941**	**6,462**

Table 1
Expenditures (cont'd)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	Total
				(millions)			
A SECURE, OPEN AND EFFICIENT BORDER							
Border security and facilitation							
Expediting pre-approved travellers	–	15	15	12	8	8	58
Better tools for risk assessment and detection	6	17	12	11	10	10	67
Better equipment for detecting dangerous shipments	3	52	15	14	12	12	107
Integrated Border Enforcement Teams	10	25	25	25	25	25	135
Better service to small business	–	5	5	2	2	2	14
Other initiatives	52	37	34	34	34	34	226
Contingency	–	5	5	10	10	10	40
Subtotal	**72**	**156**	**110**	**107**	**101**	**101**	**646**
Border infrastructure	**–**	**150**	**150**	**150**	**100**	**50**	**600**
Total border initiatives	**72**	**306**	**260**	**257**	**201**	**151**	**1,246**
Total	**1,139**	**1,523**	**1,496**	**1,260**	**1,199**	**1,092**	**7,708**
REVENUES							
Air Travellers Security Charge[2]	–	430	445	445	445	445	2,210
Other	–	50	50	30	25	25	180
Total revenues	–	480	495	475	470	470	2,390

Note: Totals may not add up due to rounding.

[1] This includes $1.2 billion for the Department of National Defence and its agencies.
[2] Figures include net goods and services tax (GST).

1. Security

Protecting citizens, their property and their way of life from external threats is a fundamental role of government. The new national security measures outlined below are designed to prevent terrorist attacks in Canada and prevent terrorists from using Canada as a staging area. The Government's plan is based on:

A. increased resources for intelligence and policing;

B. enhanced screening of arrivals to Canada; and

C. better emergency preparedness and support for Canada's military.

Security funding in this budget includes $1.2 billion for the Department of National Defence and its agencies.

A. Intelligence and Policing

Better intelligence and enhanced policing will help to detect terrorists in Canada so they can be prevented from acting on their intentions, prosecuted and dealt with – including removal from the country where mandated. Improved intelligence will also support other security measures by:

- providing more reliable data for screening entrants to Canada; and
- guiding the country's emergency response and preparedness efforts.

Over the next five years the cost of these intelligence and policing actions will total more than $1.6 billion.

This new funding builds on other recent initiatives such as those in the 2000 budget. The budget provided $1.1 billion over five years to the Royal Canadian Mounted Police (RCMP) to strengthen policing and security activities. In addition, during the last two years the Government provided more than $900 million over five years in a number of enforcement and intelligence areas.

Equipping and Deploying More Intelligence and Police Officers

Budget 2001 provides almost $1.2 billion over the next five years to the RCMP, the Canadian Security Intelligence Service (CSIS) and other security-related federal departments to train, equip and deploy more intelligence officers, front-line investigative personnel and other professional staff. CSIS will receive the biggest annual funding increase since its inception. This funding will also be used to upgrade technology and equipment for intelligence gathering and analysis.

These resources will strengthen the ability of Canada's security and intelligence agencies to provide timely and accurate information and analysis to support the fight against terrorism. This will improve Canada's ability to respond to national security threats.

Part of this funding will be provided to the RCMP to increase the number of investigators and better train them to deal with terrorism. The RCMP will upgrade key information management systems to make the collection, analysis and dissemination of intelligence more efficient and effective.

Improving Co-ordination and Information Sharing

The co-ordination of investigative and enforcement efforts among agencies is essential to the fight against terrorism. This budget provides $76 million over the next five years to strengthen inter-agency co-ordination on two fronts.

- First, funding will be provided to the RCMP to establish Integrated National Security Enforcement Teams (INSETs), which will include representatives from federal enforcement and intelligence agencies, as well as provincial, municipal and international law enforcement partners.
  - The INSETs will gather information to prevent, detect and prosecute criminal offences against Canada's national security. They will have an intelligence and enforcement component, and will focus on the criminal activity of individuals or groups linked to terrorists and their supporters. Using intelligence from CSIS or its own sources, the INSETs will investigate criminal activities, analyze intelligence and ensure that all information is shared among integrated partners.
- Second, additional resources will be provided to the Canadian Public Safety Information Network. This network is a modern Canada-wide information system that enhances the timely and accurate sharing of information among criminal justice, enforcement and national security agencies.

Enhanced Marine Security

Canada is stepping up measures to protect its ports and other critical infrastructure from terrorist attacks and is increasing intelligence gathering to screen for potential terrorists as well as weapons and explosives. This budget provides $60 million over the next five years in support of these initiatives.

Funding in this budget will allow Fisheries and Oceans Canada to increase the scope and frequency of its surveillance flights over critical approaches to North America. This will enhance Canada's capacity to identify and address potential marine threats.

The Government will also provide resources to expand the Coast Guard's surveillance of Canada's waterways. Over the coming months Transport Canada will work with other organizations to identify further measures to improve marine security.

Cutting Off Terrorist Finances

Cutting off the financing that supports terrorism and denying terrorists access to the nation's financial system are a key element of the Government's anti-terrorist strategy. The Government recognizes that these initiatives must be part of a co-ordinated international effort to ensure terrorism cannot simply shop jurisdictions until it finds an accommodating home.

Canada has been a full partner in this effort. It has moved quickly to implement all UN Security Council Resolutions with respect to the freezing of terrorist assets and the prohibition of making funds available to terrorists.

In addition, as Chair of the G-20, Canada has worked to broaden the international commitment to strong countermeasures, as demonstrated by the Action Plan on Terrorist Financing agreed to at the November 2001 Meeting of G-20 Finance Ministers and Central Bank Governors in Ottawa.

Canada has also provided technical and financial assistance to other countries, especially developing nations, to aid in their efforts to prevent abuse of their financial systems. In early November the Caribbean Regional Technical Assistance Centre was established with the help of $8 million committed by Canada earlier this year.

To deprive terrorists of the funds needed to finance their activities, Bill C-36 strengthens the Government's ability to pursue those engaged in raising funds for terrorists and terrorist groups. The bill includes measures to make the financing of terrorism a criminal offence, strengthen the Government's authority to seize terrorist assets, and broaden Canada's existing anti-money laundering regime to combat terrorist financing.

Canada's anti-money laundering agency, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), was established to provide information to law enforcement authorities to assist in the investigation and prosecution of money laundering. In October 2001 the Government provided $10 million to FINTRAC to enable it to also address terrorist financing. This budget provides $53 million over the next five years to increase FINTRAC's capacity to fulfill these new responsibilities.

B. Screening of Entrants to Canada

Canada welcomes visitors, as well as immigrants and genuine refugees who want to live peacefully in their new country and contribute to its future. That will not change. Yet the Government recognizes that it must improve its ability to prevent potential security risks from entering or passing through the country.

This budget invests $1 billion over the next five years in several measures designed to improve the screening of the thousands of individuals – immigrants, refugee claimants, visitors – who arrive at Canada's borders or seek to go to Canada every day. The Government's objective is to ensure that this first line of defence is strong and secure. As a result, in situations involving refugee claimants, all of the processes that follow the initial screening will function more effectively.

This screening will start abroad with immigration control officers gathering intelligence and preventing those who should not be allowed into Canada from continuing their travel. It will continue at Canadian ports of entry, where there will be heightened vigilance, as well as faster and improved early security screening. Additional resources will be directed to the detention and removal of those who pose security risks to Canada.

Better and More Accurate Screening

Canadian immigration officers stationed abroad have a key role to play in the intelligence-gathering and enforcement process. In co-operation with CSIS and the RCMP, they help identify individuals linked to terrorism or organized crime and prevent them from obtaining documents that would facilitate travel to Canada. Immigration control officers also scrutinize documents of individuals at airports before they board a plane destined for Canada and prevent them from continuing if they should not be allowed entry into Canada.

This budget provides funding to significantly expand the number of immigration control officers abroad. This will better prevent potential security risks from attempting to enter Canada.

It is also critical that a strong screening system be in place at Canadian ports of entry to detect anyone posing a security threat. This budget therefore includes resources to allow for an increased number of immigration officers, who will perform more intense document verification for all individuals arriving in Canada. Up-front security screening of refugee claimants will also be intensified.

This budget provides a total of $395 million over five years for these screening initiatives.

More Resources for Detentions, Removals and Refugee Determination

To support enhanced screening activities, this budget increases resources to detain individuals who do not satisfy immigration officers of their identities, who pose security risks, or who try to enter the country illegally. In addition, further funding will be provided so that such persons, as well as those who are found not to be genuine refugees, can be removed promptly from Canada.

This budget also provides funding to shorten the length of time necessary to validate refugee claims. For claimants, this will avoid prolonged and uncertain stays in Canada while they are waiting for a hearing. Quicker determination of refugee claimants will enhance security by reducing the number of people making inappropriate claims in Canada and, therefore, the potential for would-be terrorists to exploit the refugee determination system.

Funding in this budget for these measures totals $210 million over the next five years.

Fraud-Resistant Documents

This budget provides $287 million over the next five years to improve the integrity of documentation provided to new immigrants to Canada and existing permanent residents who are not Canadian citizens. The new fraud-resistant Permanent Resident Card will come into effect as planned in June 2002. Further, state-of-the-art security features will be incorporated into the passport system.

To offset the cost of the card, the Minister of Citizenship and Immigration will make the necessary changes to regulations to increase immigrants' application fees by $50. Current permanent residents may also obtain a card by paying a $50 fee. Development and implementation costs are funded in this budget.

These enhanced security measures will bolster confidence in these key personal documents at home and abroad.

C. Emergency Preparedness and Military Deployment

The security measures in this budget aim to minimize the potential for terrorism. However, the Government must ensure that, should a terrorist act occur, it has in place the means to act quickly and effectively to minimize the impact on the lives and property of Canadians. Enhancements in this area also position Canada better to respond to other types of emergencies, such as natural disasters.

This budget therefore commits substantial funding to enhance emergency response and preparedness. It allocates more than $1.6 billion over the next five years to improve the Government's ability to detect, prevent and respond to threats, and to fund Canada's military participation in the international coalition against terrorism.

Supporting Canada's Military

The Prime Minister has stated that Canada is firmly committed to fighting side-by-side with its allies against terrorism. Canada has announced a commitment of up to 2,000 members of the Canadian Forces in the operation known as Operation Apollo.

Budget 2001 provides an additional $210 million to fund Canada's participation in the international military campaign against terrorism, as well as a further $300 million for capital.

Incremental Defence Funding

The last two budgets increased defence funding to contribute to quality-of-life improvements for Canadian Forces personnel and provide more support to the Canadian Forces in pursuing their overall mandate. As a result of actions taken in the 1999 and 2000 budgets, the Department of National Defence (DND) will receive $3.9 billion in additional funding over the next five years.

Budget 2001 provides DND and its agencies with a total of $1.2 billion over the next five years. This includes $300 million this year to purchase needed capital, $210 million for Operation Apollo and more than $690 million under the security initiatives.

The $3.9 billion of new funding in the budgets of 1999 and 2000, together with the more than $1.2 billion of new funding in this budget, means that the Government will have increased DND funding by $5.1 billion over the next five years.

Incremental DND Funding Over the Next Five Years

Budget 1999	Budget 2000	Budget 2001	Grand total
	(millions of dollars)		
550	3,350	1,202	5,102

Expanded Anti-Terrorist Capacity

The Joint Task Force Two (JTF 2) of the Canadian Forces is a world-class elite unit trained to intervene in terrorist situations. In light of the international obligations that may be placed on the JTF 2 as part of Canada's commitment to its allies in the war on terrorism, this budget provides $119 million over the next five years to double the capacity of the unit. This will improve the JTF 2's ability to respond to incidents at home and abroad.

Chemical, Biological, Radiological and Nuclear Threats

Canada must have the infrastructure to respond to the use of unconventional weapons, whether they be chemical, biological, radiological or nuclear. As a result of this budget:

- funding will be increased to enhance the existing laboratory networks so that they will be able to detect and identify possible biochemical threats more quickly; and
- new protective equipment will be purchased and better training for emergency response teams will be provided to ensure that front-line responders are better prepared.

In total, this budget provides $513 million over the next five years in support of these initiatives.

Emergency Preparedness

Canada needs to strengthen its ability to respond to threats against critical infrastructure such as water and energy utilities and transportation and communications systems. Therefore, this budget includes funding to expand the capacity of the Office of Critical Infrastructure Protection and Emergency Preparedness (OCIPEP).

OCIPEP will work with other federal agencies such as the RCMP and CSIS. It will also work with all provincial and territorial governments, emergency measures organizations throughout Canada, and foreign organizations – particularly in the U.S. – to improve the overall level of infrastructure protection and emergency preparedness.

This budget provides $396 million over the next five years to fund these initiatives.

2. A New Approach to Air Security

Although Canada has one of the safest aviation systems in the world, the events of September 11 have had a significant impact on the security needs of air travellers. Budget 2001 is allocating $2.2 billion over the next five years to meet these new needs.

Rigorous new national standards for security in airports and on board flights are essential to protecting people. This budget will therefore provide Transport Canada with funds to strengthen its capacity to set regulations, review standards, and monitor and inspect all air security services.

A New Federal Authority for Air Security

To implement these standards, the Government will consolidate air security services under a single new federal authority, which will deliver improved security at Canadian airports and on board flights.

The new federal authority will be responsible for:

- providing pre-board screening of passengers and baggage at airports. Screening will be done by better-trained personnel using highly specialized equipment according to new, rigorous performance and training standards set by Transport Canada;
- policing at key locations in Canada's airports;
- providing armed undercover police on domestic and international flights originating in Canada; and
- providing for the acquisition and operation of detection equipment that will search for traces of explosives on air passenger baggage in Canada.

Security Modifications for Aircraft

This budget provides funding to help Canadian air carriers undertake permanent modifications to aircraft cockpit doors. This initiative will address the heightened security standards required in the current environment. This assistance is over and above the $160 million in federal funding provided to Canadian air carriers for their direct losses stemming from the closure of Canada's airspace following the events of September 11.

Enhanced Security Around Work Areas in Airports

The new federal authority will be responsible for screening passengers and their baggage. Since people other than passengers also have access to airport facilities, Transport Canada is also tightening access to aircraft by creating enhanced security zones at handling facilities and on airport tarmacs, and will work in co-operation with the Canada Customs and Revenue Agency (CCRA) on security procedures at Canada's airports.

Air Travellers Security Charge

To fund the new air security expenditures, the Government will introduce an Air Travellers Security Charge, effective April 1, 2002. The charge will be paid by air travellers – the primary users of these enhanced security measures. It will be collected by air carriers or their agents at the time of purchase of the airline tickets.

For travel within Canada, the total cost of the charge will be $12 for a one-way trip and $24 for a round trip. Over the next five years this charge will generate revenue that will be roughly equivalent to the new air security expenditures. The rate of the charge will be reviewed over time to maintain revenue in line with these expenditures.

Table 2
Air Travellers Security Charge

One-way travel within Canada:	$12
Round-trip travel within Canada:	$24
Travel to a destination in the continental U.S.:	$12[1]
Travel to a destination outside Canada and the continental U.S.:	$24

Notes: The above amounts include GST, where applicable.
Further details on the Air Travellers Security Charge are provided in Annex 8.

[1] The rate for travel to U.S. destinations takes into account that U.S. taxes also apply.

3. A Secure, Open and Efficient Border

The Government's security agenda involves much more than physical security for Canadians. A key element is rebuilding confidence through greater economic security, and there can be no more important measure than maintaining an open border with the U.S. The economic welfare of both countries depends on making the border more secure, open and efficient.

Every day close to $2 billion worth of goods and services crosses the Canada-U.S. border. The U.S. is the destination for over 80 per cent of Canada's exports and the source for about 70 per cent of Canada's imports. Canada provides 20 per cent of U.S. imports and is the single largest foreign market for U.S. goods and services, accounting for 25 per cent of its exports.

Given the magnitude of this two-way trade, both countries recognize that it is in their mutual interest to facilitate the flow of legitimate goods and people while ensuring that safety and security concerns are addressed.

During the G-20 Ottawa Ministerial in November 2001, renewed impetus was given to Canada-U.S. co-operation on finding better ways to manage the flow of goods and services across the border and on quickly resolving potential impediments to this flow. To co-ordinate this effort, both countries agreed to appoint senior officials.

This budget provides more than $1.2 billion to keep the border open, secure and efficient, including a $600-million program to improve border infrastructure.

A. Border Security and Facilitation

This budget provides $646 million over the next five years to enhance border operations. The CCRA will accelerate implementation of its new risk-based approach to border management. This involves facilitating the passage of pre-approved goods and travellers so that resources can be concentrated on other goods and travellers.

Expediting Pre-Approved Travellers

Many Canadians, particularly those who live in border cities, go to the U.S. frequently for business and pleasure. The Government recognizes the benefit of expediting such crossings.

The CCRA will therefore seek to partner with American authorities in expanding the Canada-U.S. NEXUS system, which speeds passage of pre-approved travellers at land border crossings. It will also implement the Expedited Passenger Processing System for frequent air travellers. The pre-approval processes for such programs are rigorous, involving background and security checks on all applicants prior to approval.

For both programs, the CCRA will improve the level of technology, using advanced systems to identify participants. These traveller pass programs will involve a service fee consistent with the Government's cost recovery policy.

This budget provides $58 million over the next five years in support of these initiatives.

Better Tools for Risk Assessment and Detection

Effective security requires the capacity to identify and intercept high-risk individuals before they attempt to enter the country. Currently Customs officers get their first opportunity to review air travellers coming to Canada only when they arrive at Customs.

The Advanced Passenger Information System/Passenger Name Record (API/PNR) will allow Customs officers access to air carriers' passenger reservation systems to obtain information on travellers for a risk assessment review before they arrive at Customs.

API/PNR received funding in Budget 2000 for an initial evaluation. Budget 2001 provides additional funding to implement the program on a Canada-wide basis.

Another key element of improving screening of people wishing to enter Canada is to provide front-line officers with better information on arriving travellers. The Integrated Primary Inspection Line system will link Customs' primary inspection lines to additional data and intelligence in real time. Like API/PNR, this system will help Customs officers determine whether travellers should be referred for further questioning or examination. This budget allocates funds to expand this program to all major ports of entry.

Additional funds will be allocated for the CCRA to develop an on-line case management and occurrence reporting system and a national repository for intelligence information. This initiative will facilitate sharing of intelligence data and the building of case profiles on individuals posing a threat to national security.

In total, this budget provides $67 million over the next five years in support of these initiatives.

Better Equipment for Detecting Dangerous Shipments

Smuggling is becoming more sophisticated, not only for guns and explosives, but also for drugs and other contraband – the sale of which might be used to finance terrorist activities.

This budget provides $107 million over the next five years to the CCRA for additional detection equipment such as X-ray machines and ion scanners. This will make it easier for Customs officers to intercept firearms and explosives, without delaying legitimate commerce or tourism.

The CCRA will also work with other government departments to control shipments that affect Canada's health, safety and security by improving the exchange of electronic information.

Integrated Border Enforcement Teams

Maintaining an open Canada-U.S. border requires numerous agencies to work together to share intelligence and co-ordinate enforcement activities. This budget therefore includes additional funding of $135 million over five years to establish new multi-agency Integrated Border Enforcement Teams.

Led by the RCMP on the Canadian side, Integrated Border Enforcement Teams will consist of other federal enforcement agencies, including the CCRA, Citizenship and Immigration Canada, and provincial and municipal police forces. These teams will work in co-operation with enforcement personnel from key U.S. federal, state and local agencies. Teams will help border inspection agencies with intelligence gathering and investigations, both at and between high-volume land and marine border crossings.

Better Service to Small Business

Many of the Government's trade facilitation programs focus on streamlining the importation process for low-risk importers. However, such broad-based programs may not meet the needs of small business importers.

The CCRA will introduce the following two new programs targeted to meet the unique needs of small commercial importers:

- The Internet One-Step Process will provide a secure Internet environment in which importers may complete and submit standard import documents electronically. On-line options for the payment of any applicable duties and taxes will also be developed. Importers who use this new program will still have to present their goods at Customs and provide any necessary additional documents, such as import permits.

- Customs Small Business Desks will assist small commercial importers by offering personalized assistance on all aspects of the importation process, including the new Internet One-Step Process.

Together, these programs will make it easier for small businesses to bring their goods across the border into Canada. This budget provides $14 million over the next five years in support of these programs.

B. Border Infrastructure

Trade flows with the U.S. have increased some 150 per cent since 1988. Robust growth in commercial traffic is now taxing the capacity of some of Canada's busiest border crossings. Continued growth in trade will therefore require further investment in border-related infrastructure.

To this end, Budget 2001 provides $600 million over the next five years towards a new border infrastructure program. Projects supported by this program could include:

- new or improved highway access for border crossings;
- processing centres for commercial vehicles to speed up clearance times; and
- "soft infrastructure" such as intelligent transportation systems, which facilitate the electronic exchange of information between government agencies and trucks and trains crossing the border.

Under this program, the Government will seek to partner with the provinces, municipalities and private sector. The federal government also intends to work with the United States to ensure a co-ordinated approach towards border infrastructure.

By financing improvements to the infrastructure of existing and new crossings, this border infrastructure program will result in greater security and faster transit times for people and goods crossing the Canada-U.S. border.

Securing progress in an uncertain world

Budget 2001

Strategic Investments: Bridging to the Future

December 10, 2001

Canada

Securing progress in an uncertain world

Budget 2001

Strategic Investments: Bridging to the Future

Department of Finance Canada
Ministère des Finances Canada

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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the $100-billion tax cut and the $23.4 billion in increased support for health care and early childhood development.

"Our economic success, our ability to create jobs, will be determined, first and foremost, by the degree to which we demonstrate an understanding of the great currents that are shaping the world of tomorrow."

Finance Minister Paul Martin
2001 budget speech

Highlights

Budget 2001 addresses immediate needs through targeted, strategic investments that provide a stimulative boost to confidence in the economy. It does so as it advances, in a fiscally affordable way, the long-term plan the Government has put in place.

1. *Investing in Health Initiatives*

Because Canada's publicly funded health care system reflects the fundamental values shared by all Canadians, the budget:

- confirms that the $23.4 billion in funding to support health and early childhood development agreements reached by first ministers in September 2000 is fully protected;
- further strengthens the federal government's contribution to Canada's health care system by providing $95 million to the Canadian Institute for Health Information; and
- provides a $75-million increase to the annual budget of the Canadian Institutes of Health Research.

2. *Investing in Skills, Learning and Research*

Because the Government is committed to providing every opportunity for Canadians to upgrade their skills, and because research today is the source of new jobs tomorrow, the budget includes more than $1.1 billion over three years to support skills, learning and research by:

- increasing funding for sector councils;
- improving support for people with disabilities who pursue higher education;

- reducing waiting period provisions for apprentices in the employment insurance program, allowing an income tax deduction for apprentice vehicle mechanics' tools, and assisting mentoring and business support to young entrepreneurs;
- exempting from income tax tuition assistance for adult basic education provided under certain government programs and extending access to the education tax credit;
- helping offset indirect research costs at universities and research hospitals;
- supporting leading-edge technologies and expanding regional innovation initiatives across the country through increased funding to the National Research Council of Canada;
- providing additional funding to the Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council; and
- extending funding for Internet initiatives including SchoolNet, the Community Access Program and Government On-Line, and building CA*net 4, a new generation of Internet broadband network architecture.

In total, the Government's expenditures on science and technology are estimated at $7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

3. *Investing in Strategic Infrastructure and the Environment*

Because investments in infrastructure will both stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term, the budget announces targeted investments of nearly $3 billion that:

- create the Strategic Infrastructure Foundation, with a minimum federal commitment of $2 billion, to fund large strategic projects;
- confirm $680 million in funding for a capital grants program to alleviate the shortage of affordable rental housing;
- double funding to the Green Municipal Enabling Fund and the Green Municipal Investment Fund;
- enhance incentives for renewable energy and energy efficiency projects.

4. *Aboriginal Children*

Because the well-being of Aboriginal children today will lead to stronger First Nations communities in the future, this budget provides $185 million over the next two years to:

- enhance programs such as child care and head start programs, which support early childhood development;
- intensify efforts to reduce the incidence of fetal alcohol syndrome and fetal alcohol effects on reserves; and
- provide increased funding to support children on reserves who have special needs at school.

5. *Furthering International Assistance*

Because Canada recognizes the importance of helping those most in need beyond its borders, the budget increases international assistance by $1 billion over three years. Among other things, the budget will:

- commit $500 million to a fund promoting sustainable development in Africa; and
- provide humanitarian emergency assistance in Afghanistan.

Introduction

The Government's overarching goals are to build a strong economy and secure society and to improve the quality of life for Canadians. The strategic investments in this budget help achieve these objectives by dealing with the needs of today. At the same time, they serve as a bridge to a better tomorrow.

This budget does so with investments that are consistent with the Government's long-term plan. By investing responsibly now in key initiatives, the Government is achieving two important goals. It is helping to support Canadians and the Canadian economy through the current period of economic weakness and uncertainty, while meeting its ongoing commitment to a more innovative economy and inclusive society.

In each case, decisions are based on these two criteria. First, the investment must be consistent with advancing the Government's long-term agenda. Second, it must fit within its prudent fiscal framework and, where possible, provide stimulus during a period of economic weakness and uncertainty and position Canada to take advantage of the economic recovery.

The economic stimulus in this budget is both significant and timely. When coupled with other spending initiatives coming on stream this year, the total impact is $9 billion this year, growing to $11 billion next year. This is in addition to the stimulus provided by the large tax cuts announced in October 2000 and the substantial decline in interest rates this year.

By investing in strategic infrastructure, in skills, learning and research, and in health, Aboriginal children, the environment and international assistance, the 2001 budget reflects the Government's long-term vision while providing important support now for the economy.

It represents another important building block in the Government's balanced agenda of jobs, growth and opportunity.

Investing in Health Initiatives

Canada's publicly funded health care system reflects the fundamental values shared by all Canadians. It gives Canadians the security of knowing that they have access to high-quality care when they need it.

Confirming Increased Funding for Health Care

In September 2000 a historic agreement was reached by first ministers on a shared approach and action plan for renewing health care services and reporting to Canadians on progress made. Agreement was also reached on increased support for early childhood development.

This budget confirms that the federal funding of $23.4 billion in support of these agreements is fully protected. This includes $21.1 billion in transfers to the provinces and territories through the Canada Health and Social Transfer (CHST) and $2.3 billion in targeted health funds for medical equipment, new information technologies and primary care reform.

The CHST is the main program through which the federal government supports health care. In 2001-02 CHST cash will increase by $2.8 billion, bringing the cash total to $18.3 billion. In 2002-03 CHST cash will grow to $19.1 billion, a $3.6-billion increase over 2000-01. By 2005-06 CHST cash will reach $21.0 billion – a $5.5-billion or 35-per-cent increase over 2000-01 levels.

Providing Growing, Stable and Predictable Funding for the Provinces and Territories

Table 1

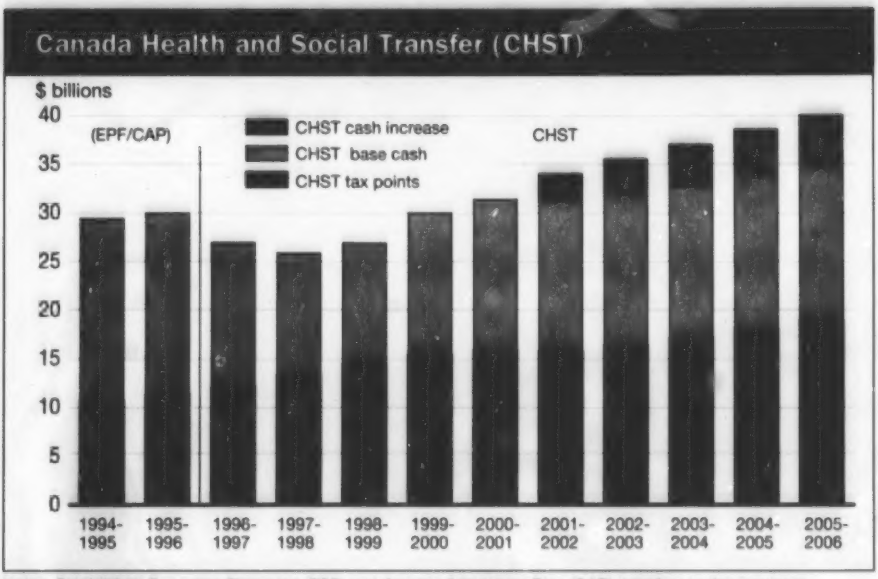
Funding Commitments of the Government of Canada to Accompany the Agreements on Health Renewal and Early Childhood Development

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	Total
	(billions of dollars)						
Canada Health and Social Transfer							
Base cash[1]	15.5	15.5	15.5	15.5	15.5	15.5	–
General cash increase	–	2.5	3.2	3.8	4.4	5.0	18.9
Early childhood development		0.3	0.4	0.5	0.5	0.5	2.2
Total CHST cash	15.5	18.3	19.1	19.8	20.4	21.0	–
Medical Equipment Fund	0.5	0.5	–	–	–	–	1.0
Health information technology	0.5	–	–	–	–	–	0.5
Health Transition Fund for Primary Care	–	0.2	0.2	0.2	0.2	–	0.8
Total cash[2]	16.5	19.0	19.3	20.0	20.6	21.0	–
Total cash increase							23.4

[1] Base CHST cash includes the CHST supplements in Budget 1999 ($3.5 billion) and Budget 2000 ($2.5 billion).

[2] Sum of total CHST cash transfers and funding for non-CHST measures.

At the same time, the tax transfer component of the CHST, which grows in line with the growth in the economy, provides increasing support to the provinces and territories, as illustrated in the chart below, growing from $16.5 billion in 2000-01 to $18.8 billion in 2005-06. Together with the increases in CHST cash, total CHST will reach close to $40 billion in 2005-06, compared to approximately $32 billion last year.



Notes: Established Programs Financing (EPF) and Canada Assistance Plan (CAP) transfers to the provinces were replaced by the CHST in 1996. CHST base cash includes both the CHST supplements of Budget 1999 ($3.5 billion) and Budget 2000 ($2.5 billion). The CHST cash increase is the funding provided in September 2000 in support of agreements on health renewal and early childhood development.

New Health Investments

Budget 2001 further strengthens the federal government's contribution to Canada's health care system and the health of Canadians by investing substantial additional funds in health information systems and health-related research and innovation.

The Canadian Institute for Health Information

The Canadian Institute for Health Information (CIHI), established in 1994, is playing an increasingly central role in providing Canadians, health care providers and policy-makers with information on the health of Canadians and the health care system.

The 1999 budget provided $95 million to the CIHI to support it over four years. This budget renews the $95 million for an additional four years, to be used in conjunction with Statistics Canada, to continue to provide quality and timely health information. This will include developing common health indicators so that nationwide, comparable information is available.

In addition, this budget provides $5 million over two years to Health Canada so that it can produce health data on First Nations' people on reserve. This information is important to understanding health trends and emerging issues.

Canadian Institutes of Health Research

In Budget 1999 the Government announced the creation of the Canadian Institutes of Health Research (CIHR) through a combination of existing resources for health research and an incremental annual investment of $175 million. Already, the CIHR has established 13 Institutes across the full spectrum of health research, including the Institute of Cancer Research, the Institute of Nutrition, Metabolism and Diabetes, the Institute of Gender and Health, the Institute of Healthy Aging, the Institute of Neurosciences, Mental Health and Addiction, and the Institute of Aboriginal Peoples' Health.

All the Institutes embody an innovative and integrative approach to health research. As part of their research activities, all Institutes include biomedical research, clinical research, and research on health systems, health services, the health of populations, societal and cultural dimensions of health and environmental influences on health.

To further support leading-edge health research of this kind and its translation into economic benefits for Canadians through a commercialization strategy developed by the CIHR, this budget provides a $75-million increase to the annual budget of the CIHR. This investment brings the CIHR's annual budget to over $560 million, more than double the federal funding provided four years ago.

Genome Science Research

Genomic science – the study of the genetic code in people, plants and all other living things – is key to the advancement of biotechnology, a driving force in the new economy. Research in this field is leading to major breakthroughs in our understanding of living organisms and, in the area of human health, will revolutionize the identification and treatment of diseases.

Budget 2000 invested $160 million in Genome Canada, a not-for-profit corporation that supports genome science activities throughout Canada. An additional investment of $140 million was made in Genome Canada at the end of 2000-01. The Government has also increased funding for its regulatory activities concerning genomics to ensure that the new technologies respect and preserve the environment and Canadian ethics and values.

This budget announces a contribution of $10 million to the BC Cancer Foundation in recognition of the seminal work of the late Dr. Michael Smith. Dr. Smith was the founding director of the Genome Sequence Centre (GSC) at the BC Cancer Research Centre and won the Nobel Prize for his work on DNA sequencing. The Government's contribution will support ongoing research at the GSC.

Recent Federal Initiatives in Support of Health

- The Government has also increased significantly its targeted funding to support the purchase of up-to-date medical equipment, improve health information systems and accelerate changes in the way primary health care is provided to Canadians.
  - The **Medical Equipment Fund** provides provinces and territories funding of $1 billion for the purchase and installation of medical and diagnostic equipment, such as MRI machines, CAT scanners, radiation therapy machines and other diagnostic and treatment equipment.
  - The **Health Transition Fund for Primary Care**, which supports innovation and reforms in primary care for Canadians, received $800 million over four years.
  - To support health information and technologies, the **Canada Health Infoway Corporation** was established with a $500-million investment. Development of electronic patient records is a priority for this new corporation.
- As well, the Government has increased significantly its own programs and services in health and health care, including health protection, disease strategies, and services for First Nations.
- As part of its comprehensive strategy to improve the health of Canadians by reducing tobacco use, the Government:
  - raised taxes on tobacco products in April and November 2001; and
  - increased funding for tobacco control programs.

Investing in Skills, Learning and Research

It is now widely recognized that skills, learning and research are critical to success in the global knowledge-based economy. A more educated and skilled labour force is a key driver of productivity and hence the competitiveness of workers, firms and other organizations. Enhanced approaches to the development of a skilled workforce are needed, approaches rooted in Canada's universities, colleges, trade schools and other educational institutions, and based on a spirit of entrepreneurship and lifelong learning.

Research and development are equally important. Research creates ideas and pushes forward the frontiers of knowledge. Development translates that knowledge into new products, services and technologies that are key to high-value-added jobs and growth in all sectors of the Canadian economy.

The Government has long recognized the value of investing in people – in literacy and in the education system, which provides advanced skills and individual economic security; in on-the-job training, which supports job-specific skills; and in universities and other centres of advanced research, where the ideas and instructors of the future are found. That is why, in Budget 1998, the Government introduced the Canadian Opportunities Strategy, a comprehensive plan that built on previously introduced measures to expand access to the knowledge and skills needed for better job opportunities in the 21st century.

Under the Strategy, the Government introduced Canada Millennium Scholarships, Canada Education Savings Grants and the Canada Research Chairs program. It invested heavily in the Canada Foundation for Innovation to upgrade the country's research infrastructure, and it brought the combined budgets of the three granting councils to their highest level ever, a total of more than $1.1 billion annually. The Government also increased funding for research and development programs of direct relevance to the private sector and provided tax encouragement for entrepreneurship, given that more research and development by individual businesses, both large and small, across Canada are key to Canada's future economic performance. In total, the Government's expenditures on science and technology are estimated at $7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

Skills and Learning

In this budget the Government is doing more to encourage the acquisition of skills and learning by Canadians.

Sector Councils

Sector councils are industry-wide partnerships that bring together employers, unions, workers and educators to assess future employment patterns, skill requirements and training practices in different sectors of the economy. Based on this analysis, practical measures are developed to help employers and workers meet and adapt to the changing needs of each sector. There are currently 29 sector councils.

This budget provides $24 million over the next two years to increase support for exemplary councils and expand the network of councils to other strategic sectors of the economy. When fully phased in, the Government's support of sector councils will double to $60 million per year.

Canada Study Grants for Persons With Disabilities

This budget will improve support for persons with disabilities who pursue higher education. Because many people with disabilities must incur special costs to pursue higher education, Canada Study Grants of up to $5,000 a year are currently available to help pay the cost of services and equipment such as tutors, interpreters (oral, sign), attendant care for studies, specialized transportation to and from school, learning disability assessments, note takers, readers and braillers. Such assistance currently helps more than 4,500 students with disabilities at an annual cost of about $9 million.

This budget increases the maximum grant to cover exceptional costs associated with disabilities from $5,000 to $8,000. It is anticipated that this will address the problems faced by students with very high-cost disability-related needs.

Apart from these grants to help deal with exceptional costs, some students with disabilities may find that the maximum student loans available are not sufficient to meet assessed needs. In these cases, a supplementary grant of up to $2,000 a year will be provided.

The estimated cost of these two measures is $10 million annually.

Apprentice Training

The skilled trades provide good jobs to thousands of Canadians and are essential to the economy. Over the next few years Canada may be faced with a significant shortage of people with trade skills.

To support individuals while they are learning these trades, the employment insurance (EI) program provides income support to apprentices during periods of classroom training. Like everyone else, apprentices must wait two weeks before receiving EI benefits. Currently they must do so each time they leave the workplace for classroom training. This may be a deterrent to completing training and earning their trade qualification.

An apprenticeship program is a single continuous course of study stretching over a number of years. Therefore, it is proposed that the provisions of the EI program be modified so that apprentices in approved training programs are subject to only one two-week waiting period. The estimated cost of this measure is $15 million a year once fully phased in.

Apprentice Vehicle Mechanics' Tools Deduction

Apprentice vehicle mechanics experience high costs for tools. These costs have been identified as a barrier preventing more young people from taking up the trade. The budget proposes to provide tax assistance to help apprentice vehicle mechanics cope with their extraordinary tool costs. Beginning in 2002 they will be entitled to deduct for income tax purposes the cost of buying new tools, to the extent that those costs incurred in a year exceed the greater of $1,000 and 5 per cent of their apprenticeship income. The deduction will be available to employee apprentices who are registered in a provincial or territorial program leading to certification as a vehicle mechanic, for tool costs certified by the employer as having been incurred as a condition of the apprenticeship. The estimated cost of this measure is $10 million a year.

Adult Basic Education – Tax Deduction for Tuition Assistance

Thousands of adult students receive government assistance to pay their tuition fees for basic education at the primary or secondary school level. Under current tax rules, this tuition assistance is included in income without any offsetting credits. For many, the tax cost of receiving this assistance can present a real burden and can discourage them from advancing their education.

To remove this impediment, the budget proposes to exempt from income tax any tuition assistance for adult basic education provided under certain government programs, including employment insurance. This measure will apply to eligible tuition assistance received after 1996. The estimated cost of this measure is $5 million a year.

Extending the Education Tax Credit

The budget proposes to help more students undertake lifelong learning by extending the education tax credit, beginning in 2002, to people who receive taxable assistance for post-secondary education under certain government programs, including employment insurance. The proposed changes will provide significant tax relief to approximately 65,000 Canadians upgrading their skills, and will give them access to the same tax benefits that are available to other post-secondary students. The estimated cost of this measure is $20 million a year.

The education tax credit helps students offset their education expenses. The amounts on which the education tax credit is calculated were doubled in the October 2000 *Economic Statement and Budget Update* to $400 per month of full-time study and to $120 per month of part-time study, effective 2001.

Official Languages

An additional $5 million per year will be provided to promote linguistic exchanges and activities for young Canadians. The current budget for these activities is $24 million per year.

The University of Moncton is establishing a research institute that will focus on the study of public policies, practices and services supporting French and English linguistic minorities across Canada. To help bring this to fruition, this budget provides a $10-million endowment.

Youth Entrepreneurship

This budget provides $7.5 million in 2001-02 to the Canadian Youth Business Foundation so that it can expand its Youth Business Program, which provides funding as well as mentoring and business support to young Canadian entrepreneurs. An additional $6 million will be provided to Shad International to expand its Shad Valley program, which introduces Canadian high school students to the best in science, technology and entrepreneurship experiences in a university setting.

Community Colleges

In Canada there are a wide variety of community colleges with close ties to the communities where they are located. This enables them to respond quickly to the changing knowledge and skill needs of their communities. The Government has begun an active dialogue with community colleges to explore with them how it might help support the important role they play in equipping Canadians with the skills they need for the future.

Recent Federal Initiatives in Support of Skills and Learning

- **The Canada Education Savings Grant** – a grant of 20 per cent on the first $2,000 of contributions made each year to registered education savings plans – encourages and assists families in saving for their children's higher education.
- **Canada Millennium Scholarships** provide more than 90,000 needy students each year with scholarships averaging $3,000 a year to reduce the debt that they would otherwise have to incur.
- **Canada Study Grants** of up to $3,000 provide assistance each year to approximately 25,000 students, including students with dependants, students with disabilities, and high-need part-time students.
- **Tax measures that support post-secondary education** have been enhanced, including the education tax credit, the tuition credit and the scholarship exemption. These measures make education more affordable.
- **The Canada Student Loans Program** has been enhanced to help graduates manage their student debt by increasing the number of people eligible for interest relief, and providing debt reduction for those in extended financial difficulty. As well, students can now claim a tax credit for interest paid on federal and provincial student loans.
- **Tax-free registered retirement savings plan withdrawals** and an **extension of the education tax credit and child care expense deduction to part-time students** help Canadians upgrade their skills through their working life.

Research

Key investments have been made by the Government in every budget since fiscal balance was restored to increase Canada's research performance. These investments, shown in Table 6.2, have greatly improved Canada's research climate. Moreover, they have built in financial momentum that will see greater support for research over the next several years.

To add further momentum, this budget provides close to $1 billion of targeted investments over three years to promote leading-edge research and to sustain Canada's leadership in innovative uses of the Internet.

Strengthening University Research Capacity

In recent years the Government has made significant investments in research conducted in universities and research hospitals. The benefits of such research include new products, services, therapies and industry practices that contribute to economic growth and a higher quality of life for Canadians.

Universities and research hospitals have been highly supportive of these investments. However, they have expressed concerns about rising indirect costs, that is, expenses associated with administration, maintenance and commercialization activities that are not covered by direct federal funding for research.

In Budget 2000 the Government responded to these concerns by designing the Canada Research Chairs program, in which the total costs of research undertaken by professors assigned to the Chairs are covered. Further, the Government provided $400 million in the 2000 *Economic Statement and Budget Update* to the Canada Foundation for Innovation (CFI) to help defray the operating costs associated with new CFI awards.

In recognition of the priority identified by universities and provincial governments for further funding targeted to the indirect costs of research, Budget 2001 provides a one-time investment of $200 million through the granting councils to Canada's universities to help alleviate financial pressures that are associated with federally supported research activity at universities and research hospitals. This initiative will help support world-class research facilities and respond to the needs of Canada's smaller universities in their efforts to become more research-oriented.

The Government is committed to encouraging and supporting excellence in university-based research across Canada. It is also committed to promoting the commercialization of research through university and private sector partnerships and consortia. Looking ahead, the Government will work with the university community on ways to provide ongoing support for indirect research costs that is predictable, affordable and incremental to existing support.

Natural Sciences and Engineering Research Council (NSERC) and Social Sciences and Humanities Research Council (SSHRC)

The Government's contributions to the granting councils have funded research across Canada and supported talented Canadian students with their graduate and post-graduate studies. Beginning with Budget 1998 the Government has substantially increased total funding for the granting councils.

This budget continues the effort launched in 1998 to increase university research activity across all disciplines. Toward that end, the Government will increase the annual budgets of NSERC and SSHRC by 7 per cent each, resulting in an increase of $36.5 million a year for NSERC and $9.5 million a year for SSHRC. These increases will translate into additional research opportunities across Canada and more fellowships and scholarships for graduate students.

Canadian Institute for Advanced Research (CIAR)

CIAR is a non-profit corporation that supports networks of expert researchers who explore long-term scientific, social and economic issues of importance to Canada. CIAR links researchers in Canada to the best in other countries, and is internationally renowned.

The Government has contributed funding to CIAR since 1984 and is currently providing $3.5 million annually. In this budget the Government is providing $25 million to sustain and enhance the organization's research program for five years.

National Research Council of Canada (NRC)

NRC is a significant funder and performer of research across Canada. With research institutes, centres and programs spanning all regions of the country, and with a budget of over half a billion dollars, NRC is making a significant contribution to the development of clusters of research and commercialization activity and, therefore, to regional economic innovation, jobs and growth.

Following Budget 2000 NRC launched a new effort to build research institutes and innovation centres, beginning with $110 million over five years in Atlantic Canada.

This budget provides an additional $110 million over three years for leading-edge technologies and to expand NRC's regional innovation initiative beyond Atlantic Canada. This funding will support the recently announced National Institute for Nanotechnology in Alberta, the Advanced Aluminium Technology Centre in Quebec, a new research program at the Plant Biotechnology Institute in Saskatoon entitled "Crops for Enhanced Human Health," fuel cell research in British Columbia, and initiatives in Ontario and Manitoba.

Connecting Canadians to Information and Knowledge

Canadians are justifiably proud that their country has become one of the most connected nations in the world. It is an important element in building an innovative and learning economy and society.

Canada was the first country to connect all of its schools and libraries to the Internet. Further, it has 100-per-cent satellite coverage of the country and has built the world's fastest, all-optical Internet backbone to connect its major research universities and colleges.

Funding was provided in Budget 1998 for computers and Internet access in communities, schools and libraries through SchoolNet and the Community Access Program. The Government is committed to building on these strengths and to ensuring that Canadians have access to the Internet.

The 2000 budget provided initial two-year funding for a new Government On-Line strategy. In this budget the Government is providing $600 million over the next four years to implement the Government On-Line strategy by 2005. It is also providing resources to modernize the information management and information technology infrastructure of a number of government departments and agencies.

The Government is also providing $110 million of funding to build CA*net 4, a new generation of Internet broadband network architecture that will link all research-intensive institutions, including many community colleges.

Table 2
Increased Funding for Research and Technology in Previous Budgets

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
	(millions of dollars)				
Canada Foundation for Innovation[1]	30	120	180	300	480
Genome Canada[1]				31	36
Canada Research Chairs			60	120	180
Medical Research Council/Canadian Institutes of Health Research	40	72	145	255	255
Natural Sciences and Engineering Research Council	71	111	118	118	118
Social Sciences and Humanities Research Council	9	26	38	58	58
Networks of Excellence		30	30	30	30
National Research Council of Canada	50	44	90	105	100
Atlantic Innovation Fund				23	68
Canadian Space Agency		41	152	237	250
Biotechnology research and regulation		15	45	50	55
Government On-Line			80	200	
Technology Partnerships Canada	140	190	190	190	190
Connectedness[2]	60	97	117	72	
Total	400	746	1,245	1,789	1,820

[1] Amounts shown represent actual or anticipated spending by not-for-profit entities in which the Government has invested in previous budgets.

[2] Includes SchoolNet, the Community Access Program, Smart Communities and Geo Connections.

Looking ahead, as indicated in the Speech from the Throne, the Government will work with Canadian industry, the provinces, communities and the public on private sector solutions to further broadband Internet coverage in Canada, particularly for rural and remote areas. More planning is required to properly achieve the Government's commitment, particularly given rapidly changing technology; as a consequence, the Government will shift its target to the end of 2005. In looking at possible outcomes, it is the Government's expectation that the best approach could very well be to expand the highly successful SchoolNet and Community Access Program to ensure broadband access. Therefore, not only is the Government extending the current SchoolNet and Community Access Program to 2003-04 at an annual cost of $40 million, it is also setting aside $35 million a year for three years thereafter to support such broadband expansion.

Investing in Strategic Infrastructure and the Environment

Infrastructure Investment

The modern economy of the 21st century requires a backbone of sound physical infrastructure to sustain the nation's growth and our quality of life. Whether it be highways, urban transit or fishing harbours, Canada must have the physical infrastructure it needs to succeed. Investments in infrastructure will stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term.

Previous budgets have allocated funding to improve provincial and municipal infrastructure, including green infrastructure, highways and affordable housing. Budget 2000 introduced both the Infrastructure Canada Program and the Strategic Highway Infrastructure Program.

The Infrastructure Canada Program received $2.05 billion over six years (2000-01 to 2005-06). When combined with the contributions of the other partners, it will generate at least $6 billion in new investment in municipal infrastructure, typically small projects. So far more than 800 projects worth about $1 billion have been approved for funding. The program is expected to provide significant stimulus to the economy in 2002-03. The Strategic Highway Infrastructure Program will provide $600 million for highway infrastructure, providing stimulus to the economy in 2002-03. Budget 2001 builds on these initiatives.

Strategic Infrastructure Foundation

The federal government recognizes the need for additional support for large strategic infrastructure projects. Such projects span a range of areas, including highways, urban transportation, convention centres and sewage treatment. These projects can bring lasting economic and social benefits while providing both stimulus and long-term productivity benefits. In many cases, the private sector is willing to contribute needed capital and bear much of the project risk.

To address these needs, the federal government is announcing the creation of the Strategic Infrastructure Foundation. This budget commits a minimum federal contribution of $2 billion to the Foundation, with an initial allocation from this year's surplus funds at year-end. Working with provincial and municipal governments, the Foundation will provide cost-shared assistance to large infrastructure projects and will give special consideration to public-private partnerships.

The Foundation will be at arm's length from the federal government. Its board of directors will be responsible for assessing projects and making spending decisions.

Affordable Housing

There are shortages of affordable rental housing in many of Canada's urban regions. Construction of rental housing has not been a priority for builders. This, combined with growing urban populations, has pushed vacancy rates down to very low levels and has driven costs beyond the reach of many Canadians. There are also particular problems with housing in remote areas.

To help address these problems, this budget confirms a contribution of $680 million over five years to a capital grants program. Funding will be available to provinces and territories that are prepared to match federal contributions. The Minister responsible for the Canada Mortgage and Housing Corporation has concluded a framework agreement with provincial and territorial ministers responsible for housing, with a view to concluding bilateral cost-sharing agreements as soon as possible.

Critical Government Capital

In the 2000 budget $200 million per year over five years was earmarked to address safety and health concerns within the federal government's own infrastructure. During the course of 2001 additional funding requirements were identified to address health and safety in the maintenance of veterans hospitals, government laboratories and small craft harbours. An additional $236 million has been allocated to address these concerns, including $20 million a year for infrastructure repairs to active fishing harbours.

Border Infrastructure

Budget 2001 provides $600 million over the next five years towards a new border infrastructure program. Under this program, the Government will seek to partner with the provinces, municipalities and private sector, and will help finance improvements to infrastructure at or near the border. The federal government also intends to work with the United States to ensure a co-ordinated approach towards border infrastructure. Projects supported by this program could include new or improved highway access for border crossings; processing centres for commercial vehicles to speed up clearance times; and "soft infrastructure" such as intelligent transportation systems.

Federal Government Support for Physical Infrastructure

- Funded in Budget 2000, the $2.05-billion Infrastructure Canada Program finances typically smaller-scale municipal infrastructure projects over the next five years.
- A further $600-million Strategic Highway Infrastructure Program was funded in Budget 2000 to improve highway infrastructure.
- The Green Municipal Enabling Fund and the Green Municipal Investment Fund were created in 2000 to support energy and water efficiency projects. They were provided with initial endowments of $25 million and $100 million respectively. Amounts under these funds managed by the Federation of Canadian Municipalities are being doubled in this budget.
- This budget provides $600 million to fund a new border infrastructure program. The program will help ensure that sufficient infrastructure capacity is in place to assist trade at our major border crossings.
- The Strategic Infrastructure Foundation is being created in this budget. With a minimum federal contribution of $2 billion, the Foundation will assist large infrastructure projects and encourage public-private partnerships.

Improving Our Environment

The quality of life of all Canadians is closely tied to preserving and improving our natural environment. The Government is committed to continuous environmental improvement. Budget 2001 includes new spending and tax measures intended to ensure continued progress toward a cleaner and healthier environment.

Helping Communities Improve the Environment

This budget further bolsters support for communities – both urban and rural – that actively contribute toward a healthier environment. Launched last year and administered by the Federation of Canadian Municipalities, the Green Municipal Enabling Fund and the Green Municipal Investment Fund have been effective in stimulating community-based feasibility work and investments in more than 100 projects that improve the environment.

Projects involving a wide range of partners are underway across the country in areas such as energy and water savings, community energy systems, urban transit, waste diversion and renewable energy. This budget doubles the Green Municipal Enabling Fund and the Green Municipal Investment Fund, at a cost of $25 million and $100 million respectively in the current fiscal year.

New Production Incentive for Renewable Energy

As part of the Government's commitment to encourage renewable energy production in Canada, this budget proposes a new production incentive for electricity produced from qualifying wind energy projects. An initial incentive payment of 1.2 cents per kilowatt-hour of production, gradually declining to 0.8 cents per kilowatt-hour of production, will be introduced for eligible projects commissioned after March 31, 2002, and before April 1, 2007.

The incentive will be available for the first 10 years of production and will help to provide a long-term stable revenue source. This will result in more investment in wind energy projects in all regions of Canada, which will help address climate change and improve air quality. Provincial and territorial governments are encouraged to provide additional support for these wind energy investments.

The cost of this 15-year program is up to $260 million. Preliminary details will be announced shortly by the Minister of Natural Resources and, following consultations, final program details including eligibility criteria will be announced before April 1, 2002.

Improving Tax Incentives for Renewable Energy and Energy Efficiency

The budget also proposes to broaden eligibility for the income tax incentives that apply to renewable energy and certain energy efficiency projects. Currently eligible projects qualify for accelerated capital cost allowance (CCA) treatment in Class 43.1. The definition of a small hydroelectric project in Class 43.1 will be expanded from projects with an annual average generating capacity of up to 15 megawatts (MW) to projects with a

maximum annual rated capacity of up to 50MW. In addition, the class will be broadened to include equipment used to generate electricity from "blast furnace gas." Finally, because of rapid changes in technology in this area, the Government intends to consult with industry to determine whether additional improvements are required for this CCA class. The estimated cost of this measure is $5 million a year.

Promoting Sustainable Woodlot Management

Currently commercial woodlot owners are subject to income tax when they transfer their woodlots to their children. As a result, woodlots may have to be harvested prematurely to generate the revenues required to pay the tax on the transfer. This can be detrimental to the sound management of this resource. The budget proposes to ensure that the existing intergenerational tax-deferred rollover for farm property is available for transfers of commercial woodlots after December 10, 2001, where they are operated in accordance with a prescribed forest management plan. The estimated cost of this measure is $10 million a year.

Recent Federal Initiatives in Support of the Environment

- An initial $100 million for the **Sustainable Development Technology Fund** to stimulate the development and demonstration of promising new environmental technologies.
- A contribution of $60 million to the **Canadian Foundation for Climate and Atmospheric Sciences** to support academic research on climate change and air pollution.
- $150 million to renew the **Climate Change Action Fund** and $60 million for energy efficiency and renewable energy programs to lay the foundation for future greenhouse gas emission reductions by facilitating the development of technologies and supporting energy efficiency and renewable energy projects.
- $90 million allocated for the **National Strategy on Species at Risk** to support habitat stewardship programs and other species protection activities.
- Other federal initiatives already in place include **special tax provisions for renewable energy projects** and the federal government's **green power procurement commitment**, which currently provides a premium payment for renewable energy purchased to meet federal government requirements.

Aboriginal Children

The early years in children's lives are critical to their growth and well-being and lay the foundation for their future participation in learning, work and other endeavours.

Looking ahead, as the Speech from the Throne sets out, it is the well-being of Aboriginal children today that will make possible stronger First Nations communities in the future. This is why, in doing things differently, the Government undertook to improve and expand programs that support early childhood development, to reduce the number of newborns affected by fetal alcohol syndrome, and to do more to meet the special needs some Aboriginal children have in school.

Early Childhood Development

Last year the federal government and the provincial and territorial governments reached a landmark agreement to foster and report on early childhood development across Canada. In support of this undertaking, the federal government agreed to transfer $2.2 billion over five years to provincial and territorial governments to help them in augmenting their support for young children and their families.

Most provinces and territories have announced how they will use the new federal funding. Through various initiatives, all will reach out to families with young children who have special needs, including Aboriginal families.

To complement this initiative with the provinces and territories, this budget builds on federal programs that support early childhood development, with a particular focus on First Nations children on reserves. Over the next two years an additional $100 million will be provided to enhance programs such as child care and head start.

To ensure that these investments are making a difference in the lives of children, new measures will be developed to assess the effectiveness of programs.

Fetal Alcohol Syndrome

As part of last year's agreement to foster early childhood development, provinces – those in western Canada in particular – will include measures to reduce the incidence of fetal alcohol syndrome. This budget provides additional funding to intensify efforts on reserves to reduce this syndrome and its effects. Funding will be increased tenfold, by $25 million over the next two years.

Special Education

Some children face special learning challenges in school because of physical, emotional or developmental barriers to learning. This can include the ongoing impacts of fetal alcohol syndrome and fetal alcohol effects. To support children living on reserve who have special needs at school, funding will be increased by $60 million over the next two years.

Furthering International Assistance

Canadians have not lost sight of their obligation to help the less fortunate peoples of the world. As indicated in the Speech from the Throne, the long-term well-being of Canada and Canadians depends on success in improving global human security, prosperity and development.

Africa Fund

At the G-8 Summit in Genoa, African leaders presented their proposal for a New Partnership for Africa's Development, and G-8 leaders pledged to support this initiative. The Prime Minister has since restated his commitment that development in Africa will be one of the principal themes of the G-8 Summit that Canada will host in Kananaskis in June 2002.

In recognition of this commitment, Canada will establish a trust fund to enable it to work in partnership with African countries, as well as with other donor countries and the international development institutions, to promote sustainable development in Africa. The Government is committing $500 million to this trust fund, with an initial allocation from this year's surplus funds at year-end.

Humanitarian and Reconstruction Assistance in Afghanistan

To assist with the humanitarian emergency in Afghanistan and in surrounding countries, where there are significant numbers of Afghan refugees, Canada will increase the International Assistance Envelope in the current fiscal year by $100 million.

Other International Assistance

In addition, Canada will prepay its obligations to United Nations aid agencies and to the Poverty Reduction and Growth Facility at the International Monetary Fund. In fiscal year 2002-03 this measure will free up $115 million from the International Assistance Envelope that can be used to promote development in impoverished countries.

In addition, the Government will increase the International Assistance Envelope by $285 million in fiscal year 2003-04.

Taken together, these measures provide $1 billion for international assistance over three years.

Recent Federal International Development Assistance Initiatives

Increases in the International Assistance Envelope

- In the 1998 and 1999 budgets Canada provided one-time increases in the International Assistance Envelope of $90 million and $237 million respectively.
- In the February 1999 budget, as part of the Government's strategy to address global environmental problems, funds were provided to cover Canada's contribution to the Prototype Carbon Fund administered by the World Bank. As well, direct assistance to developing countries and economies in transition was increased to help build capacity to reduce and eliminate their releases of persistent organic pollutants.
- In the February 2000 budget the Government increased the International Assistance Envelope by $435 million over the 2000-01 to 2002-03 period. A further $100 million was provided in the February 2000 budget to assist developing countries with climate change initiatives over the same period.
- Subsequently, late in 2000-01 a further $148 million was provided to prepay Canadian obligations to international development agencies and to help Caribbean countries upgrade their systems of financial regulation and supervision.

Support for Debt Reduction

- In the 2000 budget the Government contributed $175 million to the multilateral trust funds of the World Bank and International Monetary Fund that provide debt relief to the world's poorest and most heavily indebted countries. In 2000-01 Canada provided a further $15 million to support the write-down of debts owed by these countries to the Central American Bank of Economic Integration.
- In January 2001 Canada instituted a moratorium on debt service payments from reforming heavily indebted poor countries that are able to use debt relief savings productively.
- Canada has forgiven $1.3 billion of Official Development Assistance (ODA) debt and since 1986 has been providing assistance to developing countries solely in the form of grants. In October 2001 Canada announced that it would convert $447 million of outstanding ODA debt owed by Pakistan to funds to be used for health and education in that country.

Looking Ahead

The strategic investments in this budget form part of the Government's long-term plan, as set out in the Speech from the Throne, to build a strong economy and secure society and improve the quality of life for Canadians. Over the course of its mandate the Government will continue to invest in this plan.

Ingenuity and innovation will be key to building a world-leading economy in the 21st century. This in turn will require the top talent, the best minds, a culture of innovation and entrepreneurship, and a new generation of leaders with a global perspective. Looking ahead, Canada will do more to attract and nurture its share of tomorrow's leaders.

In this context, the Government will continue to consult with Canadians on innovation and skills and learning in the pursuit of its plan.

In the Speech from the Throne, the Government committed to the reforms needed to modernize the Public Service of Canada. Looking forward, the Government will implement its human resource modernization strategy to help ensure an innovative and dynamic public service.

A prosperous and growing agriculture and agri-food sector is vital to Canada's economic health. Agriculture and agri-food is a $130-billion industry, a major source of jobs for Canadians, and a major contributor to the nation's trade surplus. That is why the Government of Canada is working with all provinces and territories, the sector, and Canadian consumers to develop and implement a new, integrated and financially sustainable architecture for agricultural policy for the 21st century. The Government of Canada is committed to providing its share of the predictable and long-term funding needed to support this approach. This new architecture will brand Canada as a world leader in food safety, innovation and environmentally responsible agricultural production. Governments, industry and consumers working together will shift the agriculture sector fundamentally towards prudent investment, greater self-sufficiency and global leadership.

The effective transformation of agriculture – moving beyond year-to-year crisis management – and the renewal of Canada's rural economy will require, among other things, the best possible utilization of our fundamental soil and water resources. For both economic and environmental reasons, the Minister of Agriculture and Agri-Food and the Minister of Natural Resources will examine affordable ways to encourage more of Canada's land base to be dedicated to permanent and/or conservation cover crops, agro-forestry and tree plantations.

The Government is committed to working with Canadians for the long-term prosperity of all regions of the country. In this regard, it looks forward to receiving the follow-up to *Catching Tomorrow's Wave* which had a positive influence on government regional development strategy as it applies to Atlantic Canada. Canada's rural communities, along with their urban counterparts, contribute significantly to the wealth and prosperity of our nation. But they also face unique challenges: geography, distance from markets, a small population base and reliance on primary sector industries vulnerable to sharp cyclical downturns. The Government intends to work with rural communities, their citizens, and stakeholders to develop local solutions to these challenges.

Finally, as noted above, a key element of the Government's long-term plan to encourage economic growth and job creation throughout Canada is its tax reduction plan. As part of that plan, the general corporate income tax rate is being reduced. In this regard, the Government has engaged in extensive consultations on means to extend the lower corporate tax rate to resource income while at the same time improving the tax structure for this important sector. These consultations are continuing.

Table 3
Strategic Investments: Bridging to the Future

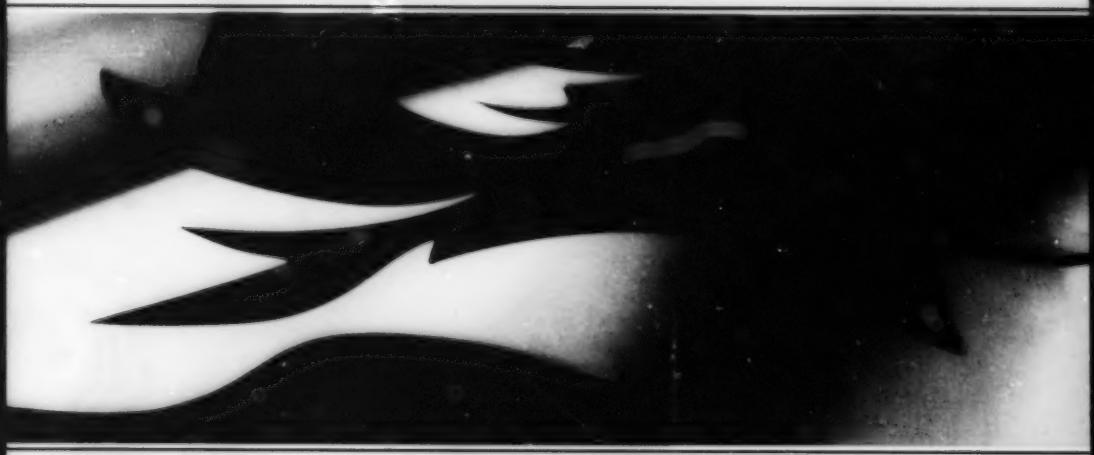
	2001-2002	2002-2003	2003-2004
	(millions of dollars)		
Investing in health			
Canadian Institute for Health Information	95		
Health data for First Nations		2.5	2.5
Canadian Institutes of Health Research		75	75
Genome science research	10		
Total	105	77.5	77.5
Investing in skills, learning and research			
Skills and learning			
Sector councils		12	12
Canada Study Grants for persons with disabilities		10	10
Apprentice training		15	15
Apprentice vehicle mechanics' tools deduction		5	10
Adult basic education – tax deduction for tuition assistance	10	5	5
Extending the education tax credit		10	20
Official languages	10	5	5
Youth entrepreneurship	14		
Research			
Indirect research costs	200		
Natural Sciences and Engineering Research Council/ Social Sciences and Humanities Research Council		46	46
Canadian Institute for Advanced Research	25		
National Research Council of Canada	30	40	40
Connecting Canadians to information and knowledge			
CA*net 4	110		
SchoolNet	10	10	10
Community Access Program	30	30	30
Government On-Line		150	150
Total	439	338	353

Table 3
Strategic Investments: Bridging to the Future (cont'd)

	2001-2002	2002-2003	2003-2004
	(millions of dollars)		
Investing in strategic infrastructure and the environment			
Affordable housing		85	170
Strategic Infrastructure Foundation	Commitment of at least $2 billion		
Critical government capital	82	95	59
Green Municipal Investment Fund	100		
Green Municipal Enabling Fund	25		
Production incentive for renewable energy		1	5
Improving tax incentives for renewable energy and energy efficiency		5	5
Promoting sustainable woodlot management		5	10
Total	207	191	249
Aboriginal children			
Special education		30	30
Early childhood development		50	50
Fetal alcohol syndrome/effects		10	15
Total		90	95
International Assistance			
Africa Fund	Commitment of $500 million		
Afghanistan assistance	100		
Other international assistance	115		285
Total	215		285
Total	**966**	**697**	**1,060**

Securing progress in an uncertain world

Budget 2001



Canada's Fiscal Progress Through 2000-2001

December 10, 2001

Canada

Securing progress in an uncertain world

Budget 2001

Canada's Fiscal Progress Through 2000-2001

Department of Finance Canada
Ministère des Finances Canada

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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

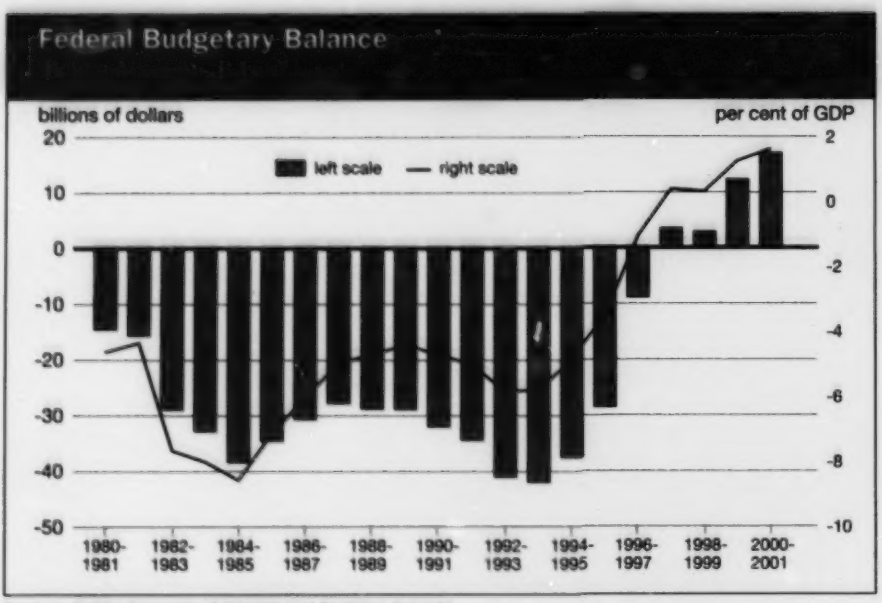
Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the $100-billion tax cut and the $23.4 billion in increased support for health care and early childhood development.

Highlights

- The federal government recorded a budgetary surplus of $17.1 billion in 2000-01. This is the largest annual surplus since Confederation and the fourth consecutive annual surplus, following surpluses of $3.5 billion in 1997-98, $2.9 billion in 1998-99 and $12.3 billion in 1999-2000.
- Net public debt has declined $35.8 billion from its peak of $583.2 billion in 1996-97 to stand at $547.4 billion. This debt paydown, coupled with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP (gross domestic product) ratio, from its peak of 70.7 per cent in 1995-96 to 51.8 per cent in 2000-01.
- This decline in net public debt has resulted in ongoing savings in debt interest payments of about $2.5 billion each and every year.
- Federal market debt – the debt issued on credit markets – has declined by over $30 billion from its peak of $476.9 billion in 1996-97 to $446.4 billion in 2000-01. The market debt-to-GDP ratio has declined to 42.3 per cent, down from its peak of 57.8 per cent in 1995-96.
- The amount of every revenue dollar collected by the federal government that is used to pay interest on the public debt declined to 23.6 cents in 2000-01, down from 36 cents in 1995-96, and is now at its lowest level since 1981-82.
- Federal program spending as a percentage of GDP has fallen from 16.4 per cent in 1993-94 to 11.3 per cent in 2000-01, its lowest level since 1948-49. More than two-thirds of the improvement in the budgetary balance since 1993-94 is attributable to the decline in program spending.
- The aggregate provincial-territorial budget recorded a record surplus of $12 billion in 2000-01, the second consecutive surplus. Eight provinces and two territories reported budgetary surpluses in 2000-01.
- On a total government basis, between 1992 and 2000 Canada achieved the largest improvement in its financial balance of all Group of Seven (G-7) countries. In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent for the G-7 countries.

Fourth consecutive budgetary surplus



Sources: Public Accounts of Canada and Statistics Canada.

- There was a record surplus of $17.1 billion in 2000-01. The federal government has now achieved four consecutive annual surpluses, including surpluses of $3.5 billion in 1997-98, $2.9 billion in 1998-99 and $12.3 billion in 1999-2000.
- As a percentage of GDP, the budgetary balance improved from a deficit of 5.8 per cent in 1993-94 to a surplus of 1.6 per cent in 2000-01, the largest surplus, as a percentage of GDP, since 1948-49.
- The four annual surpluses – totalling $35.8 billion since 1997-98 – have been applied to reducing the net public debt.
- This achievement reverses a trend of more than a quarter of a century of uninterrupted government deficits. Four consecutive surpluses have not been recorded since 1951-52.
- In a span of seven years the federal budget balance has improved by $59.1 billion, from a $42-billion deficit in 1993-94 to a $17.1-billion surplus in 2000-01.

Better than expected fiscal outcome for 2000-01 due to strong economic growth and lower spending

Table 1
Fiscal Outcome: Changes Between the October 2000 Economic Statement and Budget Update *and End of Fiscal Year 2000-01*

	(billions of dollars)
October 2000 Statement projected surplus	11.9
Impact of economic developments[1]	
Budgetary revenues	
Personal income tax	0.9
Corporate and other income tax	0.5
Excise taxes and duties	1.9
Non-tax revenues	1.7
Total revenues	4.9
Program spending	
Major transfers to persons	0.1
Major transfers to other levels of government	0.3
Direct program spending	2.6
Total program spending	3.0
Public debt charges	0.1
Net impact of economic developments	**8.0**
Policy decisions since October 2000 Statement affecting 2000-01	
Major transfers to other levels of government	
Lifting of equalization ceiling for 1999-2000	-0.8
Direct program spending	
Canada Foundation for Innovation	-0.8
Agricultural assistance	-0.5
Genome Canada	-0.1
Defence/other departmental operating expenditures	-0.7
Total spending measures	-2.7
Net change	**5.2**
Outcome for 2000-01	**17.1**

Note: Numbers may not add due to rounding.

[1] A positive number implies an improvement in the budgetary balance while a negative number implies a deterioration in the budgetary balance.

- The budgetary surplus of $17.1 billion in 2000-01 was $5.2 billion above the surplus of $11.9 billion estimated in the October 2000 *Economic Statement and Budget Update.*

- This improvement was attributable to the impact of a better than expected economic performance on budgetary revenues and program spending, offset somewhat by the introduction of new policy initiatives.

- Budgetary revenues were $4.9 billion higher than estimated in the October 2000 *Economic Statement and Budget Update*, primarily reflecting the impact of stronger than expected economic growth in 2000.

- All of the major revenue components, with the exception of employment insurance premium revenues (which were unchanged), were higher. Personal income tax revenues were up $0.9 billion, corporate and other income tax revenues were up $0.5 billion, excise taxes and duties were up $1.9 billion and non-tax revenues were up $1.7 billion. The increase in excise taxes and duties primarily reflected much higher than estimated customs import duties, while higher revenues from exchange account transactions was the major factor accounting for the increase in non-tax revenues.

- On a net basis, program spending was $0.4 billion lower than estimated in the October 2000 *Economic Statement and Budget Update.*

- However, underlying spending was $3.0 billion lower, primarily due to lower than expected direct program spending (subsidies and other transfers, expenditures related to Crown corporations, defence spending and operating and capital expenditures of non-defence departments and agencies). This reflected higher net gains from enterprise Crown corporations and higher lapses on appropriated spending.

- New spending initiatives after the October 2000 Statement totalled $2.7 billion. These included the impact of lifting the equalization ceiling for 1999-2000 ($0.8 billion), and of increased funding for the Canada Foundation for Innovation ($0.8 billion), agriculture ($0.5 billion), Genome Canada ($0.1 billion), and defence and other departments ($0.7 billion) to manage increased pressures.

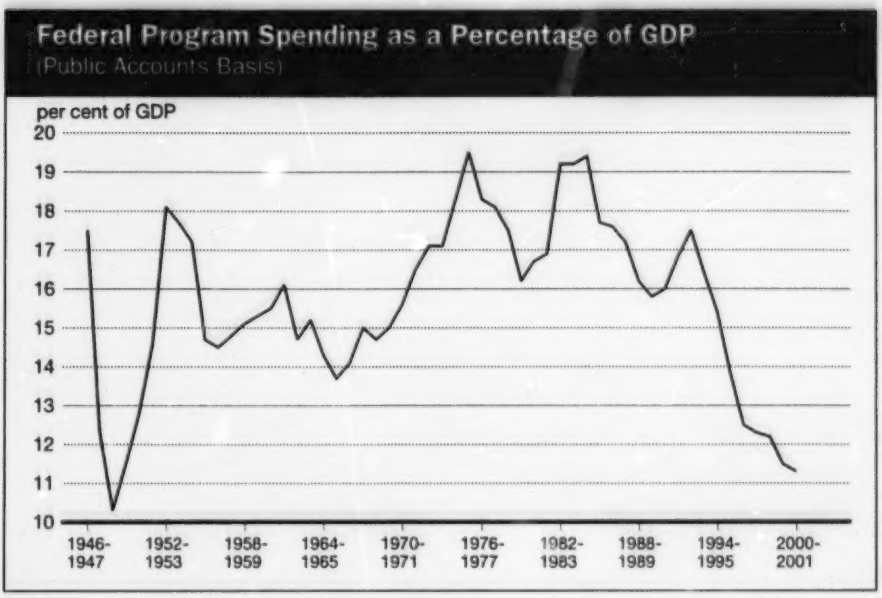
Fiscal progress from 1993-94 to 2000-01

Table 2
Change in the Federal Budgetary Balance Relative to the Size of the Economy

	1993-94	2000-01	Change	Contribution
		(per cent of GDP)		(per cent)
Budgetary revenues	15.9	16.9	1.0	13.5
Program spending	16.4	11.3	-5.1	70.0
Public debt charges	5.2	4.0	-1.2	16.5
Budgetary balance	-5.8	1.6	7.4	100.0

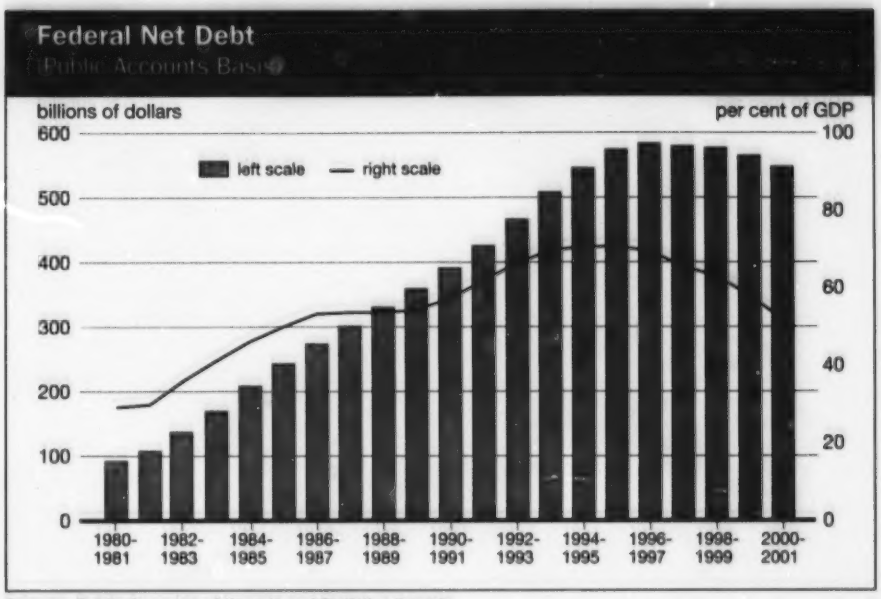
- The contribution of revenue increases and expenditure reductions to the improvement in the budgetary balance is best illustrated by looking at the evolution of budgetary revenues, program spending and public debt charges, and the resulting budgetary balance, as a share of the economy.
- Between 1993-94 and 2000-01 the budgetary balance went from a deficit of 5.8 per cent of GDP to a surplus of 1.6 per cent – a turnaround of 7.4 percentage points.
- More than two-thirds of the improvement in the budgetary balance was attributable to the decline in program spending. This primarily reflected the impact of discretionary actions taken since 1993.
- Less than 15 per cent of this improvement was attributable to the increase in the revenue yield (revenues as a percentage of GDP). This increase was due primarily to the impact of one-time factors, which depressed revenues in 1993-94, the interaction of the tax system with rising incomes, and the exclusion from nominal GDP of certain components of income subject to taxation (for example, capital gains and income from pension plans).
- Reductions in the stock of interest-bearing debt, a decline in the average effective interest rate on that debt, and a change in the accounting for interest costs related to public sector pension plans resulted in a decline in public debt charges as a percentage of GDP. This accounted for more than 15 per cent of the improvement in the overall budgetary balance.

Program spending as a share of GDP at a 50-year low in 2000-01



- Program spending in 2000-01, at $119.3 billion, was $0.7 billion lower than the $120 billion recorded in 1993-94.
- As a percentage of GDP, program spending declined to 11.3 per cent in 2000-01 – its lowest level since 1948-49 – and down more than 5 percentage points from its level in 1993-94.
- The decline in program spending, as a percentage of GDP, since 1993-94 reflects reforms to program spending that were introduced in the mid-1990s as well as sustained economic growth. These reforms included structural changes to the employment insurance program, to major transfers to provinces (excluding equalization) and to direct program spending (discretionary spending by departments and agencies) as a result of the Program Review exercise.

The debt-to-GDP ratio declined for the fifth consecutive year



Sources: Public Accounts of Canada and Statistics Canada.

- The debt-to-GDP ratio is generally recognized as the most appropriate measure of the debt burden, as it measures the debt relative to the ability of the Government and the nation's taxpayers to finance it.
- The debt-to-GDP ratio fell to 51.8 per cent in 2000-01, a decline of 18.9 percentage points from its peak of 70.7 per cent in 1995-96. The debt-to-GDP ratio is now at its lowest level since 1985-86.
- The debt-to-GDP ratio declined by 6.1 percentage points between 1999-2000 and 2000-01. This was the best single-year performance since 1951-52. Of this improvement, 4.4 points were due to economic growth while 1.7 points were due to the $17.1-billion debt repayment during the year – the largest absolute debt paydown in Canada's history.

Financial source of $19 billion in 2000-01

Table 3
Federal Budgetary Surplus and Financial Source

	1999-00	2000-01
	(billions of dollars)	
Budgetary surplus	**12.3**	**17.1**
Non-budgetary transactions		
Loans, investments and advances	-0.3	-1.7
Pension and other accounts	7.0	1.3
Other transactions	-4.4	2.2
Total	2.3	1.8
Financial source (excluding foreign exchange transactions)	14.6	19.0

Note: Numbers may not add due to rounding.

- The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made, and recording tax revenues only when the cash is received. The budgetary balance covers only those activities over which the Government has legislative control.

- Another important measure of the federal government's financial position is the financial requirements/source, which measures the difference between cash received and cash disbursed.

- It differs from the budgetary balance in that it includes transactions in loans, investments and advances, federal government employee pension accounts and other accounts, changes in financial assets and liabilities, as well as the conversion from accrual to cash accounting. The net change in these activities is included as part of non-budgetary transactions.

- Non-budgetary transactions produced a net source of funds of $1.8 billion in 2000-01, slightly less than that recorded in 1999-2000, although there were large differences among the components. The lower source in pension and other accounts primarily reflected the reforms of the federal government employees' pension plans, which became effective on April 1, 2000. Current contributions are now invested in financial markets, rather than being included as part of non-budgetary transactions. Other transactions provided a net source of funds, whereas in 1999-2000 a large requirement was recorded.

- As a result, with a budgetary surplus of $17.1 billion and a net source of $1.8 billion from non-budgetary transactions, there was a financial source, excluding foreign exchange transactions, of $19.0 billion in 2000-01, up from a source of $14.6 billion in 1999-2000.

Financial source recorded for the fifth consecutive year in 2000-01

- Financial requirements/source is a measure of the Government's financial position that is broadly comparable to the measures of budgetary balance used by other major industrialized countries, including the United States.
- Financial sources have now been recorded in each of the past five years. This is in contrast to the large financial requirements observed from the mid-1970s through the mid-1990s.
- The financial source of $19.0 billion in 2000-01 was the largest in Canada's history.

Net public debt reduced by $35.8 billion over the last four years

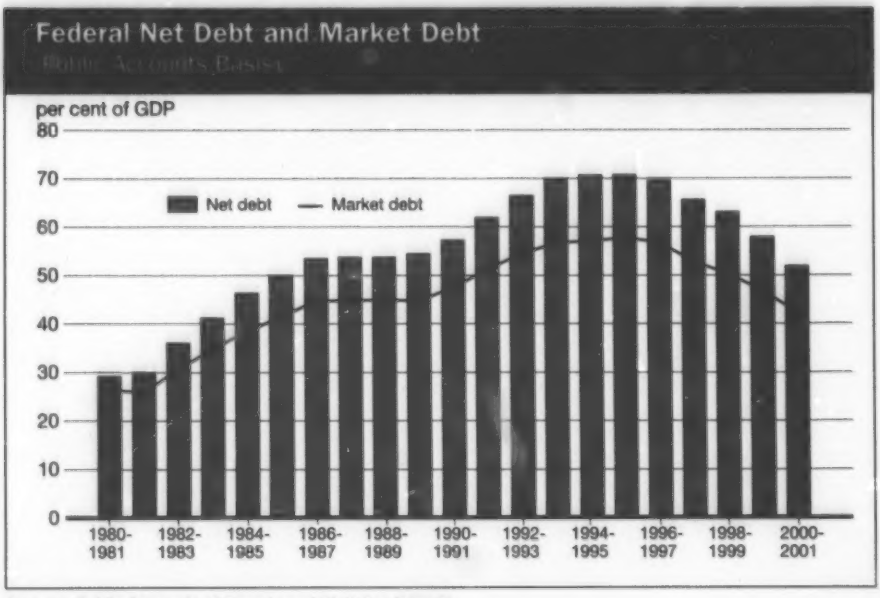
Table 4
Federal Government Financial Assets and Liabilities

	1996-97	2000-01	Change
	(billions of dollars)		
Financial assets			
Cash and accounts receivable	13.9	19.2	5.2
Foreign exchange accounts	26.8	50.3	23.5
Net loans, investments and advances	16.7	16.0	-0.7
Total financial assets	57.5	85.5	28.0
Gross liabilities			
Interest-bearing debt			
Market debt			
Payable in Canadian dollars	453.8	413.2	-40.6
Payable in foreign currencies	23.0	33.2	10.1
Total	476.9	446.4	-30.4
Public sector pensions and other accounts	123.7	142.8	19.1
Total	600.6	589.2	-11.3
Other liabilities	40.1	43.6	3.5
Gross liabilities	**640.7**	**632.9**	**-7.8**
Net public debt	**583.2**	**547.4**	**-35.8**

Note: Numbers may not add due to rounding.

- Net public debt consists of interest-bearing debt, other liabilities (primarily accounts payable) and financial assets (cash, accounts receivable, assets in the foreign exchange account, investment in Crown corporations and loans to other governments). It has declined by $35.8 billion since 1996-97, the last year the budget was in deficit.
- Among the major components, financial assets increased by $28.0 billion over this period.
- This increase is largely attributable to higher international reserves held in the Exchange Fund Account. The purpose of the Account is to aid in the control and protection of the external value of the Canadian dollar, which it does by acquiring or selling assets, as required.
- The increase over the last four years reflects the Government's announcement in the 1995 and 1998 budgets that it would bring the level of Canada's international reserves more in line with that of other countries.
- Net gains on financial assets are credited to budgetary revenues (return on investments), although borrowing costs associated with acquiring these assets are part of public debt charges.

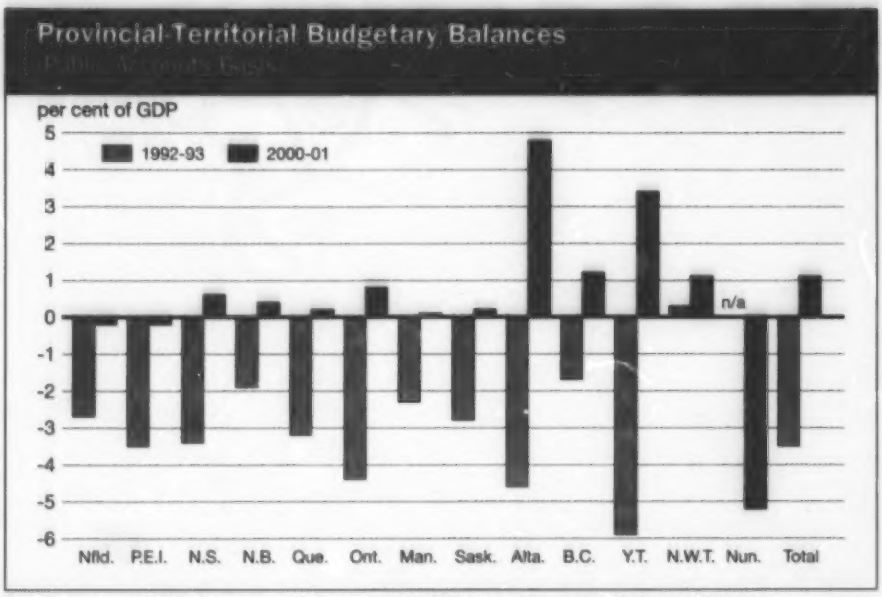
The decline in net public debt mirrors the decline in market debt



Sources: Public Accounts of Canada and Statistics Canada.

- Gross liabilities include the Government's obligations with respect to interest-bearing debt and other liabilities, such as accounts payable. Interest-bearing debt consists of market debt and the Government's liabilities to federal employee pension plans and other accounts.
- Gross liabilities have declined by $7.8 billion since 1996-97, with interest-bearing debt down by $11.3 billion and other liabilities increasing by $3.5 billion.
- However, within interest-bearing debt there were large differences.
- Market debt, consisting of debt issued on credit markets in the form of Government of Canada bonds, Canada Savings Bonds and Treasury bills, for example, declined $30.4 billion between 1996-97 and 2000-01. Debt payable in Canadian dollars declined by $40.6 billion while debt payable in foreign currencies increased by $10.1 billion. The latter is used solely for exchange fund operations. The decline in net public debt as a per cent of GDP closely mirrors the decline in market debt.
- In contrast, liabilities to the federal government employees' pensions and other accounts increased by $19.1 billion.

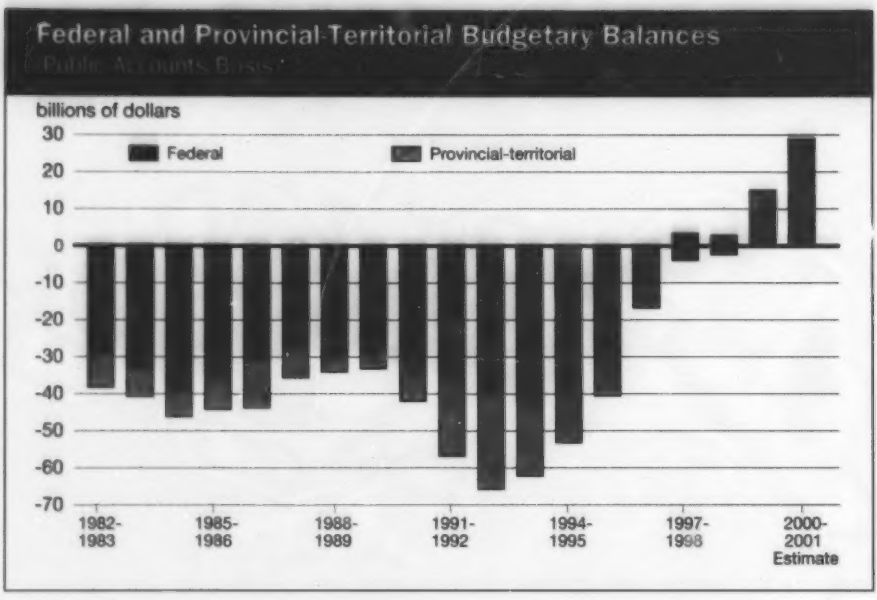
A majority of the provinces and territories reported budgetary surpluses in 2000-01



Source: Provincial Public Accounts, with the exception of P.E.I., Quebec, Yukon, Northwest Territories and Nunavut, which are based on the latest available data.

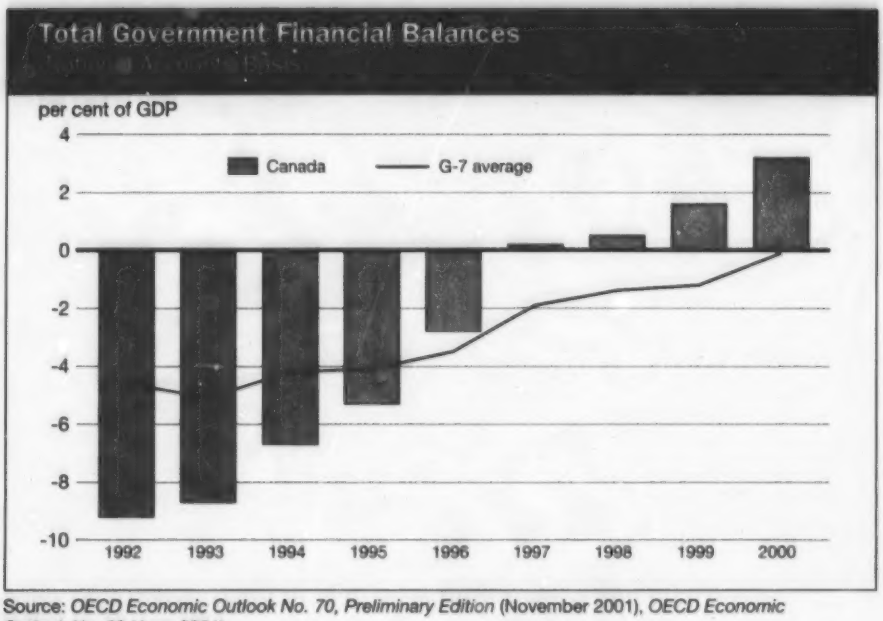
- Like the federal government, the provinces and territories have made substantial progress in restoring their fiscal health.
- Eight provinces and two territories are estimated to have recorded budgetary surpluses in 2000-01.
- This represents a substantial improvement from 1992-93, when all but one of the 12 provincial-territorial government budgets (Northwest Territories) were in deficit.
- The provincial-territorial government sector is estimated to have recorded a surplus of $12 billion in 2000-01, the second consecutive surplus after more than 30 years of uninterrupted deficits.

The aggregate federal-provincial-territorial government budget recorded a surplus for the third consecutive year in 2000-01



- In 2000-01 federal-provincial-territorial governments are estimated to have recorded an aggregate surplus of $29.2 billion, the third consecutive surplus.
- This represents a remarkable improvement from 1992-93, when the federal-provincial-territorial government sector posted a $65.8-billion deficit.

Canada's financial balance has improved significantly compared to the G-7 average



Source: *OECD Economic Outlook No. 70, Preliminary Edition* (November 2001), *OECD Economic Outlook No. 69* (June 2001).

- On a National Accounts basis, the measure commonly used to make comparisons across countries, Canada's total government[1] financial balance has improved substantially since the early 1990s.
- The total government deficit peaked at 9.2 per cent of GDP in 1992, compared to the G-7 average deficit-to-GDP ratio of 4.6 per cent that same year.
- By 1997, however, financial improvements at all levels of government enabled Canada's total government sector to post a surplus.
- In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent in the G-7 countries.

[1] Includes federal, provincial-territorial and local governments as well as the Canada Pension Plan and Quebec Pension Plan.